

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

**Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Together with Independent Auditors' Report

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

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For the Years Ended June 30, 2019 and 2018**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Habitat for Humanity of the Chesapeake, Inc. and Affiliates (a Maryland nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 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 estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, Habitat for Humanity of the Chesapeake, Inc. and Affiliates has adopted Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to that matter.

SC&H Attest Services, P.C.

November 8, 2019

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Consolidated Statements of Financial Position

<i>As of June 30,</i>	<i>2019</i>	<i>2018</i>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,604,833	\$ 2,271,500
Contributions receivable - current portion	791,581	762,079
Mortgages receivable - current portion	705,997	758,380
Accounts receivable	262,637	259,721
Grants receivable	101,300	118,299
Inventory of homes	4,083,794	4,645,109
ReStore inventory	68,190	57,885
Prepaid expenses	97,590	63,820
Total Current Assets	7,715,922	8,936,793
Property and equipment, net	1,101,376	825,279
Long-term contributions receivable, net	663,202	309,225
Long-term mortgages receivable, net	5,386,348	5,675,446
Leveraged mortgages receivable, net	7,609,837	7,520,283
Capitalized interest on leveraged mortgages receivable	3,540,104	3,461,259
Investments in limited liability companies	4,654,113	4,627,412
Prepaid interest	218,563	246,723
Deposits	51,499	48,329
Total Assets	\$ 30,940,964	\$ 31,650,749
Liabilities and Net Assets		
Current Liabilities		
Lines of credit and notes payable - current portion	\$ 1,429,120	\$ 470,854
Accounts payable and accrued liabilities	667,872	773,381
Deferred rent - current portion	32,906	29,693
Total Current Liabilities	2,129,898	1,273,928
Non-Current Liabilities		
Lines of credit and notes payable - net of current portion	3,823,519	5,606,103
Notes payable - related parties	5,114,482	5,114,482
Leveraged mortgages receivable liability	7,609,837	7,520,283
Deferred rent - net of current portion	89,970	82,703
Deferred revenue	5,990	90,295
Total Liabilities	18,773,696	19,687,794
Commitments (Note 14)		
Net Assets		
Without donor restrictions	11,165,723	10,692,800
With donor restrictions	1,001,545	1,270,155
Total Net Assets	12,167,268	11,962,955
Total Liabilities and Net Assets	\$ 30,940,964	\$ 31,650,749

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Consolidated Statements of Activities

<i>For the Years Ended June 30,</i>	<i>2019</i>			<i>2018</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Revenues, Gains and Other Support						
Contributions	\$ 1,630,443	\$ 1,790,500	\$ 3,420,943	\$ 1,890,498	\$ 1,558,974	\$ 3,449,472
Donated goods and services	158,093	-	158,093	114,621	-	114,621
Donated property	-	-	-	49,000	-	49,000
Government grants	1,389,960	14,889	1,404,849	910,420	42,464	952,884
Real estate sales	1,901,736	-	1,901,736	882,950	-	882,950
ReStore income	3,649,580	-	3,649,580	3,541,316	-	3,541,316
Special events, net of expense of \$29,831 and \$20,516, respectively	38,869	-	38,869	111,076	-	111,076
Rental income	-	-	-	14,322	-	14,322
Miscellaneous income	9,506	-	9,506	37,921	-	37,921
Amortization of mortgage discounts	340,829	-	340,829	372,013	-	372,013
Satisfaction of program restrictions	1,922,974	(1,922,974)	-	851,418	(851,418)	-
Satisfaction of time restrictions	151,025	(151,025)	-	16,959	(16,959)	-
Total Revenues, Gains, and Other Support	11,193,015	(268,610)	10,924,405	8,792,514	733,061	9,525,575
Expenses						
Program services						
House construction	5,637,596	-	5,637,596	4,719,137	-	4,719,137
ReStore services	3,262,641	-	3,262,641	3,163,131	-	3,163,131
Support services						
Management and general	1,333,555	-	1,333,555	1,147,943	-	1,147,943
Fundraising	592,855	-	592,855	621,152	-	621,152
Total Expenses	10,826,647	-	10,826,647	9,651,363	-	9,651,363
Excess (Deficit) of Revenues, Gains, and Other Support over Expenses	366,368	(268,610)	97,758	(858,849)	733,061	(125,788)
Other Changes in Net Assets						
Investment income from limited liability companies	26,701	-	26,701	1,261	-	1,261
Debt forgiveness - notes payable,	73,125	-	73,125	-	-	-
Debt forgiveness - notes payable, related parties, net	-	-	-	747,956	-	747,956
Gain (loss) on the sales of homes	6,729	-	6,729	(482,680)	-	(482,680)
Total Other Changes in Net Assets	106,555	-	106,555	266,537	-	266,537
Change in Net Assets	472,923	(268,610)	204,313	(592,312)	733,061	140,749
Net Assets, beginning of year	10,692,800	1,270,155	11,962,955	11,285,112	537,094	11,822,206
Net Assets, end of year	\$ 11,165,723	\$ 1,001,545	\$ 12,167,268	\$ 10,692,800	\$ 1,270,155	\$ 11,962,955

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Consolidated Statements of Functional Expenses

<i>For the Years Ended June 30,</i>	<i>2019</i>					<i>2018</i>				
	<u>Program Services</u>		<u>Supporting Services</u>			<u>Program Services</u>		<u>Supporting Services</u>		
	<i>House</i>	<i>ReStore</i>	<i>Management and</i>		<i>Total</i>	<i>House</i>	<i>ReStore</i>	<i>Management and</i>		<i>Total</i>
	<i>Construction</i>	<i>Services</i>	<i>General</i>	<i>Fundraising</i>		<i>Construction</i>	<i>Services</i>	<i>General</i>	<i>Fundraising</i>	
Advertising	\$ 85,649	\$ 22,971	\$ 997	\$ 135,008	\$ 244,625	\$ 17,447	\$ 81,294	\$ -	\$ 155,066	\$ 253,807
Amortization of capitalized interest	148,976	-	-	-	148,976	143,633	-	-	-	143,633
Bad debt expense	-	-	-	12,071	12,071	124,169	-	-	5,225	129,394
Computer and software maintenance	27,250	5,291	11,021	33,542	77,104	16,446	8,355	13,138	38,119	76,058
Conference/training expenses	18,910	3,763	6,658	1,014	30,345	18,641	6,156	2,697	720	28,214
Construction and rehabilitation costs on houses sold and settled	2,567,541	-	-	-	2,567,541	1,343,881	-	-	-	1,343,881
Depreciation expense	21,280	64,873	37,727	5,823	129,703	36,833	57,615	22,100	5,525	122,073
Discounts of mortgages receivable	65,500	-	-	-	65,500	121,165	-	-	-	121,165
Dues and subscriptions	6,039	11,058	2,785	1,093	20,975	5,107	10,806	5,960	808	22,681
Employee benefits	136,432	255,810	68,216	22,739	483,197	129,449	201,808	59,939	22,529	413,725
Habitat for Humanity International tithe	20,000	-	-	-	20,000	20,000	-	-	-	20,000
Homeownership	129,391	-	-	-	129,391	134,021	-	-	-	134,021
Insurance	5,603	25,048	2,802	934	34,387	8,622	22,436	5,173	1,293	37,524
Interest expense	53,353	6,049	106,887	69	166,358	103,007	10,171	9,810	2,452	125,440
Impairment on inventory of homes	1,009,442	-	-	-	1,009,442	1,265,565	-	-	-	1,265,565
Meals and entertainment	32,778	12,337	31,659	9,298	86,072	18,354	11,145	20,108	7,010	56,617
Miscellaneous expense	7,370	12,393	1,484	946	22,193	15,257	8,307	2,928	25,177	51,669
Office administration and supplies	37,730	70,744	18,865	6,288	133,627	37,413	61,727	22,446	5,612	127,198
Postage	3,022	5,667	1,511	504	10,704	8,154	98	4,894	1,224	14,370
Printing and production	9,206	17,260	4,603	1,534	32,603	9,002	14,853	5,401	1,350	30,606
Professional fees	25,777	62,865	158,754	8,380	255,776	102,874	72,429	140,304	1,872	317,479
Purchased merchandise	-	252,580	-	-	252,580	-	257,858	-	-	257,858
Remediation of houses previously sold	16,067	-	-	-	16,067	4,870	-	-	-	4,870
Rent	102,966	690,553	51,483	17,161	862,163	73,188	709,016	43,913	10,978	837,095
Repair and renew	97,304	-	-	-	97,304	32,000	-	-	-	32,000
Repairs and maintenance	18,038	86,000	28,458	-	132,496	11,385	103,426	6,831	1,708	123,350
Salaries	871,060	1,236,179	737,999	313,686	3,158,924	769,587	1,168,043	688,251	302,099	2,927,980
Taxes - other	-	14,072	600	-	14,672	660	13,458	1,565	-	15,683
Taxes - payroll	69,789	130,854	34,894	11,631	247,168	94,463	81,924	65,794	23,101	265,282
Telephone	26,228	49,177	13,114	4,371	92,890	28,738	43,261	17,243	4,311	93,553
Travel	6,227	3,762	5,260	4,170	19,419	3,821	3,883	113	2,639	10,456
Truck expenses	-	156,013	-	-	156,013	-	143,109	-	-	143,109
Utilities	15,556	62,465	7,778	2,593	88,392	15,558	66,159	9,335	2,334	93,386
Volunteers	3,112	4,857	-	-	7,969	5,827	5,794	-	-	11,621
Total Expenses	\$ 5,637,596	\$3,262,641	\$ 1,333,555	\$ 592,855	\$10,826,647	\$ 4,719,137	\$3,163,131	\$ 1,147,943	\$ 621,152	\$9,651,363

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2019</i>	<i>2018</i>
Cash Flows from Operating Activities		
Change in net assets	\$ 204,313	\$ 140,749
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation expense	129,703	122,072
Amortization of prepaid interest	28,160	30,182
Amortization of deferred financing costs	3,463	3,463
Amortization of capitalized interest on leveraged mortgages receivable	145,513	140,170
Capitalized interest from leveraged mortgages receivable	(224,358)	(108,472)
Impairment on inventory of homes	1,009,442	1,265,565
Bad debt expense	12,071	129,394
Change in discounts of contributions receivable	1,147	(15,725)
Mortgages receivable discount expense	65,500	121,165
Amortization of mortgage discounts	(340,829)	(372,013)
Amortization of notes payable discounts	-	49,922
Effects of changes in operating assets and liabilities:		
Contributions receivable	(396,697)	700,597
Accounts receivable	(2,916)	(121,637)
Grants receivable	16,999	34,154
Inventory of homes	(448,127)	(752,737)
ReStore inventory	(10,305)	(13,081)
Prepaid expenses	(33,770)	768
Accounts payable and accrued liabilities	(105,509)	(116,399)
Deferred rent	10,480	18,038
Deferred revenue	(84,305)	90,295
Net Cash and Cash Equivalents (Used in) Provided by Operating Activities	(20,025)	1,346,470
Cash Flows from Investing Activities		
Acquisition of property and equipment	(405,800)	(106,278)
Changes in equity in investments in limited liability companies (Note 5)	(26,701)	(749,217)
Origination and acquisition of mortgages receivable, net	(16,094)	188,141
Principal payments collected on mortgages receivable	632,904	740,430
Increase in deposits	(3,170)	-
Net Cash and Cash Equivalents Provided by Investing Activities	181,139	73,076
Cash Flows from Financing Activities		
Proceeds from lines of credit and notes payable	1,039,855	802,863
Payments on lines of credit and notes payable	(1,867,636)	(665,905)
Net Cash and Cash Equivalents (Used in) Provided by Financing Activities	(827,781)	136,958
Net (Decrease) Increase in Cash and Cash Equivalents	(666,667)	1,556,504
Cash and Cash Equivalents, beginning of year	2,271,500	714,996
Cash and Cash Equivalents, end of year	\$ 1,604,833	\$ 2,271,500
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 157,968	\$ 136,585
Settlement costs	\$ 101,840	\$ 42,577
Increase in leveraged mortgages receivable, net	\$ 89,554	\$ 112,597
Cash received on foreclosed homes or deeds in lieu	\$ 126,235	\$ 215,281
Debt forgiven and write off of investment in LLC	\$ 73,125	\$ 5,277,163

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Organization

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

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

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

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

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

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

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Description of the Organization – cont’d.

The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations.

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

Principles of Consolidation

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

Basis of Accounting

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

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

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

With Donor Restrictions - Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Net assets may be donor restricted for various purposes, such as use in future periods or use for specified purposes. When a donor restrictions expires by the passage of time or by satisfying restrictions through actions of the Organization, the net assets with donor restrictions are released to net assets without donor restrictions. Net assets subject to donor restrictions to be maintained permanently by the Organization would be included in this net asset class, however, the Organization has no such net assets as of June 30, 2019 and 2018.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Program Services

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

Management and General

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

Fundraising

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

Functional Allocation of Expenses

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

Cash and Cash Equivalents

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

Credit Risk

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Investments in Limited Liability Companies

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

Contributions

Contributions are recognized when a donor makes an unconditional promise to transfer assets to the Organization. Contributions received are recorded at fair value on the date of the gift and are recorded as contributions with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions Receivable

Contributions receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. In accordance with ASC 958-310, *Not-for-Profit Entities: Receivables*, pledges due in one or more years are discounted to their net present value at the time the revenue is recorded. The Organization uses the allowance method to determine the reserve for uncollectible pledges receivable. The allowance is based on historical experience and management's analysis of specific promises made. As of June 30, 2019 and 2018, the Organization had unconditional promises to give, all of which management considered to be fully collectible, totaling \$1,471,655 and \$1,087,029, respectively. Contributions receivable includes amounts receivable in more than one year in the amount of \$680,074 and \$324,950 as of June 30, 2019 and 2018, respectively, which are recorded as contributions with donor restrictions. Contributions receivable are discounted for the time value of money using the IRS long term annual applicable federal rate at the date of the promise, which was 1.76% and 2.73% as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, discounts on contributions receivable totaled \$16,872 and \$15,725, respectively.

At June 30, 2019, the anticipated receipts of contributions receivable are as follows:

For the years ended June 30,:	
2020	\$ 791,581
2021	393,361
2022	275,913
2023	7,400
2024	3,400
Total	1,471,655
Less: present value discount	(16,872)
Contributions receivable, net	\$ 1,454,783

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Mortgages Receivable

Mortgages receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments, with original maturities ranging from 20 to 30 years. All of the mortgages are related to new construction and the rehabilitation of existing homes rehabilitated by the Organization. These mortgages are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, ranging from 2.59% to 2.88% as of June 30, 2019 and from 2.79% to 3.11% as of June 30, 2018. Amortization revenue is recorded using the straight-line method over the lives of the mortgages.

The Organization is a secured creditor. Management therefore records a provision for loan losses at the time that it is determined that the mortgage balance exceeds the fair market value of the related home. Management has not provided a provision for loan losses as of June 30, 2019 and 2018 because the fair market value of the homes exceeds the related mortgage balances.

The Organization has pledged some of the mortgage loans as collateral for lines of credit and notes payable (Note 9).

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

Leveraged Mortgages Receivable

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Leveraged Mortgages Receivable – cont’d.

The leveraged mortgages receivable are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, ranging from 2.97% to 3.14% as of June 30, 2019 and from 2.79% to 3.14% as of June 30, 2018. The difference between the cash received and the gross mortgage receivable transferred is recorded as capitalized interest on leveraged mortgages receivable in the consolidated statements of financial position. The capitalized interest on leveraged mortgages receivable is amortized over the term of the leveraged mortgage receivable using the straight-line method. The liability in the event that the homeowner does not make the required payments is included in the consolidated statements of financial position as a leveraged mortgages receivable liability, carried at fair market value.

Inventory of Homes

Inventory of homes consists of houses and lots purchased by or donated to the Organization for rehabilitation and resale and the cost of homes that are under construction. Donated properties, materials, and services relating to the homes are recognized at fair market value as of the date of the donation. The houses and lots are valued at net realizable value. Impairment on the inventory of homes totaling \$1,009,442 and \$1,265,565 is included in house construction expenses in the consolidated statements of activities for the years ended June 30, 2019 and 2018, respectively. When homes are sold the related costs and impairments are removed by recording construction and rehabilitation costs on houses sold and settled.

Property and Equipment

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

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

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Property and Equipment – cont'd.

Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the life of the lease. Depreciation and amortization expense totaled \$129,703 and \$122,072 for the years ended June 30, 2019 and 2018, respectively.

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. As of June 30, 2019 and 2018, the Organization had no assets held for disposal.

Warranties

The Organization provides homeowner warranties on the homes it rehabilitates and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. No accruals were considered necessary as of June 30, 2019 and 2018.

Deferred Financing Costs and Amortization

Deferred financing costs are presented as a contra-account to the mortgage liability and are amortized over the period the obligation is outstanding using the straight-line method. Interest from deferred financing costs charged to operations totaled \$3,463 for each of the years ended June 30, 2019 and 2018.

Donated Services

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Donated ReStore Items

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

ReStore Inventory

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

Income Taxes

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

ASC 740, *Income Taxes*, prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties, and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. The Organization has considered its income tax positions, including any positions that may be considered uncertain by the relevant tax authorities in the jurisdictions in which the Organization operates. As of June 30, 2019 and 2018, the Organization had no uncertain tax positions.

The Organization recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Organization does not have any amounts accrued relating to interest and penalties as of June 30, 2019 and 2018. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The Organization implemented ASU 2016-14 and has adjusted the presentation of its consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented. As a result of the pronouncement application, net assets classifications have been reduced from three categories to two categories.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 and most industry-specific guidance throughout the Industry Topics in the ASC. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance for nonpublic entities to reporting periods beginning after December 15, 2018. Early adoption is permitted. The new revenue standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and accounting guidance for contributions. ASU 2018-08 clarifies whether certain transactions should be characterized as contributions (nonreciprocal transactions) within the scope of Topic 958-605 or as exchange (reciprocal) transactions subject to other guidance such as Topic 606, *Revenue from Contracts with Customers*. The ASU provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The update as it relates to contributions received and made is effective for periods beginning after December 15, 2018 and December 15, 2019, respectively. Early adoption is permitted. Management has elected not to early adopt ASU 2018-08 and will assess its future impact.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Recently Issued Accounting Pronouncements – cont’d.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which will be effective for fiscal years beginning after December 15, 2019. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt ASU 2016-02 and will assess the impact on future financial statements.

Subsequent Events

The Organization evaluated for disclosure any subsequent events through November 8, 2019, the date on which the consolidated financial statements were available to be issued, and determined that there were no material events that warrant disclosure, except as disclosed in Note 5, Note 8, Note 9 and Note 14.

2. MORTGAGES RECEIVABLE

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

Mortgages receivable as of June 30, 2019 and 2018 are as follows:

	2019	2018
Mortgages receivable	\$ 9,748,232	\$ 10,434,277
Less: discount on mortgages	(3,655,887)	(4,000,451)
Mortgages receivable, net	\$ 6,092,345	\$ 6,433,826

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

2. MORTGAGES RECEIVABLE – cont’d.

At June 30, 2019, the balances due on the mortgages, excluding those that have been leveraged, are scheduled to be received for the next five years and thereafter are as follows:

For the years ended June 30,:	
2020	\$ 705,997
2021	649,302
2022	601,855
2023	271,063
2024	253,836
Thereafter	7,266,179
Total	\$ 9,748,232

3. LEVERAGED MORTGAGES RECEIVABLE

The Organization leverages mortgages receivable to banks. Leveraged mortgages receivable as of June 30, 2019 and 2018 are as follows:

	2019	2018
Leveraged mortgages receivable	\$ 11,823,226	\$ 11,821,240
Less: discount on leveraged mortgages	(4,213,389)	(4,300,957)
Leveraged mortgages receivable, net	\$ 7,609,837	\$ 7,520,283

4. FAIR VALUE MEASUREMENT

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

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

Level 2 Inputs to the valuation methodology include:

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

4. FAIR VALUE MEASUREMENT– cont’d.

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

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

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

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

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of June 30, 2019 and 2018.

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2019:

	Level 1:	Level 2:	Level 3:	Total
Leveraged mortgages receivable liability	\$ -	\$ 7,609,837	\$ -	\$ 7,609,837

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

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

5. INVESTMENTS IN LIMITED LIABILITY COMPANIES

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

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

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

Habitat Harbor Leverage, LLC (Habitat Affiliate 3)

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

Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional 18.74% ownership in Habitat Affiliate 3. This investment is carried at fair market value, as it was acquired through a merger, and is netted against the related note (see Note 8) for the consolidated financial statement purposes. The fair value is deemed to be \$0 as of June 30, 2019 and 2018.

The Organization invested \$4,469,199 with Habitat Affiliate 3 and was able to secure a 15-year loan in the amount of \$5,114,482 payable to Harbor Community Fund VI LLC (CDE) (a subsidiary of Habitat Affiliate 3). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions (Note 8). Subsequent to year-end, during September 2019, in connection with the debt forgiveness, the investment was written off.

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

	2019	2018
Beginning balance	\$ 4,627,412	\$ 4,600,711
Investment activity	26,701	26,701
Ending balance	\$ 4,654,113	\$ 4,627,412

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

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

	2019	2018	
Cash	\$ 961,212	\$ 878,428	
Note receivable	7,513,354	7,430,579	
Total assets	\$ 8,474,566	\$ 8,309,007	
Equity	\$ 8,474,566	\$ 8,309,007	
Revenue and net income	\$ 239,046	\$ 239,046	

Investment income is summarized below for the year ended June 30, 2019:

	Habitat Affiliate 3
Income	
Distribution	\$ 121,718
Interest	27,688
Total income	149,406
Expense	
QLICI interest	37,418
Amortization	85,287
Total expense	122,705
Total investment income from limited liability companies	\$ 26,701

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

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

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

6. PROPERTY AND EQUIPMENT

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

	2019	2018
Land and buildings	\$ 626,140	\$ 625,000
Furniture, fixtures and equipment	97,709	95,783
Leasehold improvements	479,349	342,308
Vehicles	574,248	345,603
Computer equipment	311,656	274,608
	2,089,102	1,683,302
Less: accumulated depreciation	(987,726)	(858,023)
Property and equipment, net	\$ 1,101,376	\$ 825,279

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

7. DEFERRED RENT

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

Future amortization of deferred rent is as follows:

For the years ended June 30,:		
2020	\$	32,906
2021		16,547
2022		14,962
2023		20,618
2024		37,843
Total	\$	122,876

8. NOTES PAYABLE, RELATED PARTIES

During 2011, in connection with the investment in Habitat Affiliate 2, the Organization received a \$5,277,163 note from HFHI-SA NMTC V, LLC (a related party). The note required interest only payments at 0.76%. The note was secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note's put option feature was exercised on March 12, 2018 and the debt was forgiven in full. Debt forgiveness – notes payable, related parties, net of \$747,956, is shown on the consolidated statements of activities for the year ended June 30, 2018, consisting of the debt forgiveness of \$5,227,163, net of the \$4,529,207 loss on investment in Habitat Affiliate 2 that occurred at the time that the put option was exercised.

During 2013, in connection with the investment in Habitat Affiliate 3, the Organization received a \$5,114,482 note from Harbor Community Fund VI, LLC (a related party). The note requires interest only payments at 0.73%. The note is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional note payable in the amount of \$1,882,483 due to Harbor Community Fund VI, LLC, subject to the same terms as the note from Harbor Community Fund VI, LLC, disclosed above. This note is carried at fair market value, as it was acquired through a merger, and is netted against the related investment for the consolidated financial statement purposes. The fair value is deemed to be \$0 as of June 30, 2019 and 2018. The note has a put option feature that is exercisable on or before September 24, 2019. During September 2019, the put options on both notes were exercised and debt was forgiven in full.

Interest expense on the notes payable, related parties included in investment income from limited liability companies on the consolidated statements of activities totaled \$51,190 and \$78,800 for the years ended June 30, 2019 and 2018, respectively.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

8. NOTES PAYABLE, RELATED PARTIES – cont'd.

These notes require the maintenance of certain covenants. The Organization was in compliance with all covenants as of June 30, 2019.

9. LINES OF CREDIT AND NOTES PAYABLE

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

	2019	2018
M&T Bank Revolving Note	\$ 200,000	\$ 200,000
Severn Savings Bank Line of Credit	1,939,286	2,059,286
Neighborhood Housing Services of Baltimore, Inc.	309,722	326,389
Self-help Homeownership Opportunity Program	13,759	40,932
BOKF, NA dba Bank of Texas	111,719	177,956
PNC Community Development Company, LLC	1,202,005	1,304,765
CDFC, net	74,401	149,544
M&T Bank Notes	314,019	364,287
Rosedale Federal Savings and Loan Association	971,347	1,489,005
Community Development Block Grant 42	148,125	-
	\$ 5,284,383	\$ 6,112,164
Less: Unamortized deferred financing costs	(31,744)	(35,207)
Less: Current Portion of Lines of Credit and Notes Payable	(1,429,120)	(470,854)
Long Term Portion of Lines of Credit and Notes Payable	\$ 3,823,519	\$ 5,606,103

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

For the years ended June 30,:	
2020	\$ 1,429,120
2021	321,496
2022	289,695
2023	289,695
2024	289,695
Thereafter	2,516,557
Total	\$ 5,136,258

The future maturities table above is reduced by the \$148,125 forgivable portion of the Community Development Block Grant 42 debt.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Interest expense on the lines of credit and notes payable totaled \$131,703 and \$41,656 for the years ended June 30, 2019 and 2018, respectively. In addition, the Organization paid interest of \$85,759 and \$106,730 for the years ending June 30, 2019 and 2018, respectively, which has been capitalized as part of inventory of homes on the consolidated statements of financial position.

M&T Bank – Credit Line

The Organization has a \$50,000 credit line with M&T, bearing interest at the bank's prime rate plus 1.5%, (7.0% and 6.5% as of June 30, 2019 and 2018, respectively) and due on demand. The credit line is secured by all deposits or other sums credited by or due from M&T to the Organization, as well as any cash, securities, instruments or other property. There were no outstanding borrowings as of June 30, 2019 and 2018.

M&T Bank – Revolving Note

The Organization has a \$200,000 revolving demand note with M&T, bearing interest at the bank's prime rate, (5.5% and 5.0% as of June 30, 2019 and 2018, respectively) 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.

Severn Savings Bank Line of Credit

The Organization has a \$2,500,000 line of credit with Severn Savings Bank (Severn), bearing interest at 4.75%. The line of credit requires the Organization to make monthly principal payments of \$10,000 and matures on August 1, 2020. This line of credit is secured by mortgages receivable in the amount of \$3,050,103 and \$3,196,680 as of June 30, 2019 and 2018, respectively. This line of credit contains covenants with which the Organization must comply. As of June 30, 2019, the Organization was in compliance with, or had received a waiver for, all covenants associated with this line of credit.

Neighborhood Housing Services of Baltimore, Inc.

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

Self-help Homeownership Opportunity Program

The Self-help Homeownership Opportunity Program (SHOP) notes payable to HFHI are non-interest bearing and unsecured notes used for building homes. These notes represent a 25% portion of the SHOP grants received as of June 30, 2019 and 2018, respectively, and are payable through 2021 in monthly installments of principal and interest.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

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. This loan was paid in full as of June 30, 2019.

During 2016, the Organization obtained two notes of \$125,000, each from BOKF, NA dba Bank of Texas, with 4.71% interest. The notes require monthly payments of principal and interest of \$2,346, maturing July 15, 2021. These notes contain covenants with which the Organization must comply. As of June 30, 2019, the Organization was in compliance with all covenants associated with these notes.

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 \$218,563 and \$246,723 of prepaid interest at a rate of 2.75% as of June 30, 2019 and 2018, respectively, and \$30,000 of loan fees. The debt is secured by approximately \$1,109,427 and \$1,210,251 of mortgages receivable as of June 30, 2019 and 2018, respectively, and requires monthly payments ranging from \$89 to \$8,800, based on a payment schedule that is based on the anticipated amounts to be received from those mortgages receivable. The note matures on July 15, 2038. On August 30, 2019, the note was amended for the inclusion of new mortgage loans, and the exclusion of released mortgage loans.

CDFC, net

During 2015, as part of the Sandtown merger, the Organization assumed notes payable to Baltimore Community Development Financing Corporation (CDFC). The notes are secured by mortgages receivable and are non-interest bearing with various maturity dates through 2021. The Organization imputed interest on these notes using a 4.25% interest rate at the date of the merger to approximate the fair market value of the liability. The notes are carried net of a discount of \$1,606 and \$8,028 as of June 30, 2019 and 2018, respectively.

M&T Bank Notes

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

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Rosedale Federal Savings and Loan Association

During 2017, the Organization obtained a \$1,150,000 construction loan for 9 townhouses in Baltimore City. The loan bears interest at prime plus .50% (6.00% and 5.50% as of June 30, 2019 and 2018, respectively), but not less than 4.00%, and is secured by the properties being constructed. The loan requires interest only monthly payments until the maturity date of November 1, 2019, at which time all unpaid principal and interest is due. In October 2018, the note was extended to become due February 1, 2020. Borrowings outstanding under the loan totaled \$401,653 and \$1,091,161 as of June 30, 2019 and 2018, respectively.

During 2017, the Organization obtained a \$1,000,000 revolving line of credit. The loan bears interest at prime plus 1% (6.50% and 6.00% as of June 30, 2019 and 2018, respectively). The loan requires interest only monthly payments until the maturity date of December 1, 2019, at which time all unpaid principal and interest is due. Borrowing outstanding under the revolving line of credit totaled \$569,694 and \$397,844 as of June 30, 2019 and 2018, respectively.

Community Development Block Grant 42

During November 2018, the Organization obtained a \$300,000 loan for the construction/rehabilitation of 8 single family homes in Baltimore. Under the terms of the agreement, a portion of the debt will be forgiven as each home is settled. During the year ended June 30, 2019, \$73,125 was forgiven on the note. The outstanding balance of the forgivable note totaled \$148,125 as of June 30, 2019.

Maryland Economic Development Corporation – Revolving Note

On September 11, 2019, the Organization entered into a one-year, \$250,000 revolving note with Maryland Economic Development Corporation at a fixed interest rate equal to 4% per annum. This revolving note is to be used for the purchase or renovation of property. This Note is secured by Deeds of Trust from the Properties acquired with the revolving note. The organization has the right to renew the loan for one year and must give the Lender a minimum of thirty (30) days written notice to renew the loan.

The disposition or renovation of any property within thirty-six (36) months of the date of the corresponding revolving loan, the principal of, and all accrued and unpaid interest on, the revolving loan made in connection with such property shall be due and payable in full by the Borrower to the Lender without demand.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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

Department of Housing and Community Development

On October 1, 2019, the Organization signed a commitment to enter into a ten-year, \$500,000 note payable with the Department of Housing and Community Development at an interest rate equal to 4.50%. The note requires monthly payments of interest only in the amount of \$1,875, with a balloon payment due and payable on the first date of the first month following the maturity date. This note is to be used for working capital to support the Organization's real estate development business in the Baltimore region.

10. REAL ESTATE SALES

During the years ended June 30, 2019 and 2018, the Organization sold 14 and 8 homes, respectively. Income and related costs on the sale of each home are not recognized until the home goes to settlement and the deed is transferred to the purchaser.

11. DONATED MATERIAL AND SERVICES

Individuals volunteer their time and perform a variety of tasks that assist the Organization with its program, fundraising and administrative activities. Many of the Organization's donated services are not recorded in the accompanying consolidated financial statements, as these services are not susceptible to objective measurement or valuation.

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

	2019	2018
Donated property - capitalized in homes inventory	\$ -	\$ 49,000
Materials and equipment - capitalized in homes inventory	149,220	36,831
Donated services - individual support meeting requirements for recognition	8,873	77,790
Donated materials and services	\$ 158,093	\$ 163,621

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Purpose restrictions		
Workforce development	\$ 170,249	\$ 235,773
Team builds	25,500	10,500
Capacity building	118,154	358,039
Homebuyer services	23,935	27,500
House construction and rehabilitation		
Home sponsorships	-	234,167
ReStore	-	94,446
Chesapeake Matched Savings Account	505	505
Total purpose restrictions	338,343	960,930
Time restrictions		
Long-term contributions receivable, net	663,202	309,225
Net Assets With Donor Restrictions	\$ 1,001,545	\$ 1,270,155

13. GAIN OR LOSS ON SALE OF HOMES

During the year ended June 30, 2019, one home was sold that was originally held as inventory to be sold within the House construction program. The proceeds were \$126,235 and the carrying value of the home totaled \$72,668, resulting in a gain of \$53,567. Additionally, the Organization gave back 25 properties to the city of Baltimore that were originally in construction in progress, resulting in a loss of \$46,838.

During the year ended June 30, 2018, five homes were sold that were originally held as inventory to be sold within the House construction program. The proceeds were \$215,281 and the carrying value of the homes totaled \$350,086, resulting in a loss of \$134,805. Additionally, the Organization gave back 29 properties to the city of Baltimore that were originally in construction in progress, resulting in a loss of \$198,087. Impairment adjustments on two homes anticipated to close after year end totaling \$149,788 were recorded.

14. LEASES

The Organization leases its office and warehouse space under a non-cancelable operating lease agreement. During 2015, the lease agreement was renewed for a five-year period from January 1, 2015 to December 31, 2019. The lease provides for annual rent of \$177,650 for the first year with annual increases of approximately 3%. During August 2019, the lease agreement was renewed for a five-year period from January 1, 2020 to January 31, 2025. After the initial two month discount period, monthly rent is \$18,233 and is subject to rent escalation of approximately 3% every January.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

14. LEASES – cont’d.

In 2007, the Organization leased a building for its Dundalk ReStore location under a non-cancelable operating lease agreement. In August 2017, the lease agreement for the Dundalk ReStore was amended to reflect base rent being abated from September 1, 2017 through January 31, 2018. For the month of February 2018 rent was \$10,194. From March 1, 2018 through February 28, 2019 the annual rent is \$116,250 with annual increases of approximately 3%. The lease term ends in June 30, 2023.

In 2013, the Organization leased a building for its Columbia ReStore location under a non-cancelable operating lease agreement that expired during the year ended June 30, 2019. In February 2019, the Organization entered into a relocation and extension agreement with the lessor for a new Columbia ReStore location under a non-cancelable operating lease agreement for an 88-month period from March 1, 2019 through June 20, 2026. After an initial four month rent abatement period, monthly rent is \$9,601 and is subject to rent escalation of approximately 3% every March.

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

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

Rent expense for the years ended June 30, 2019 and 2018 was \$862,163 and \$837,095, respectively.

The minimum annual payments under these leases are as follows:

For the years ended June 30,:		
2020	\$	629,308
2021		331,300
2022		249,847
2023		255,503
2024		129,538
Thereafter		269,855
Total	\$	1,865,351

15. EMPLOYEE BENEFITS

The Organization maintains a tax deferred annuity plan for its employees under IRC Section 403(b). Under the terms of the plan, the Organization will match 40% of the employee's deferral up to a maximum 8% of employee compensation. The Organization's contributions totaled \$29,444 and \$26,042 for the years ended June 30, 2019 and 2018, respectively.

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

16. TRANSACTIONS WITH HABITAT INTERNATIONAL

The Organization annually makes an election to remit to HFHI a tithe based on undesignated contributions. These funds are used to construct homes in economically depressed areas around the world. The Organization contributed \$20,000 to HFHI for each of the years ended June 30, 2019 and 2018, respectively. Such amounts are included in program services expense in the consolidated statements of activities.

17. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year for general expenditures are as follows as of June 30, 2019:

Current Financial Assets	
Cash and cash equivalents	\$ 1,604,833
Contributions receivable - current portion	791,581
Mortgages receivable - current portion	705,997
Accounts receivable	262,637
Grants receivable	101,300
<u>Total Current Financial Assets</u>	<u>\$ 3,466,348</u>
Less: Net assets with donor restrictions for specified purposes	(338,343)
<u>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</u>	<u>\$ 3,128,005</u>

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

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

The Organization has also established a revolving Working Capital fund for capital expenditures and program expenses (\$920,000 in the year ended June 30, 2019). The fund balance is closely monitored and replenished using unrestricted cash when available. In the event of an unanticipated liquidity need, the Organization also could draw upon a \$50,000 line of credit from M&T bank as further discussed in Note 9.