

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

**Years Ended June 30, 2017 and 2016**



**HABITAT FOR HUMANITY METRO MARYLAND, INC.**

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## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors.

### **Background**

Habitat for Humanity of Montgomery County Maryland, Inc. was formed as a nonprofit corporation under the laws of the State of Maryland on October 29, 1982 (inception). In April 2013, the Board of Directors approved a resolution to expand into Prince George's County, Maryland and operate going forward under Habitat for Humanity Metro Maryland, Inc.

In 2006, Habitat for Humanity Metro Maryland opened its first retail operation that sells donated usable goods and surplus building materials to the public and operates under the name "ReStore". Currently, there are two ReStores in operation. One is in Rockville, Maryland and the other is in Silver Spring, Maryland. Total combined ReStore sales for the years ending June 30, 2017 and 2016 were \$1,843,964 and \$1,546,133 , respectively.

### **Overview**

In a spirit of collaboration and fellowship, Habitat for Humanity Metro Maryland ("HFHMM") works with individuals, institutions, faith organizations, businesses, and the Habitat families themselves to build and rehabilitate decent and energy efficient affordable housing for those living in substandard conditions in our community.

Our vision is a community in which everyone has a decent and affordable place to live. While Montgomery and Prince George's Counties are part of the most affluent, fastest growing communities in the nation, thousands of its residents are living in poverty. Housing costs have sky-rocked, while income growth in many jobs has remained the same – making the dream of homeownership almost impossible for low-income families.

However, Habitat's unique homeownership model and programs provide a solution to this problem by offering low-income individuals the opportunity to purchase their own decent and affordable home or repair, rehabilitate, and weatherize the home.

Our mission is to create simple, decent and affordable homeownership opportunities in Montgomery and Prince George's Counties, MD. HFHMM supports the notion that good, stable housing matters for neighborhoods. Better quality of living leads to stronger citizens and families. Habitat for Humanity is about changing lives, one home at a time.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

### **Strategic Planning**

#### Community Impact

For the fiscal years 2014 through 2018, HFHMM set a goal to serve 250 families through new construction, neighborhood revitalization, weatherization, minor home repair, and major home repair. We are happy to report that we served 37 families in 2014, 43 families in 2015, 32 families in 2016, and 44 families in 2017. To achieve this goal, we are prepared to respond quickly as opportunities to serve arise. HFHMM currently has 43 projects in its pipeline, comprised of 8 in Montgomery County and 35 in Prince George's County.

#### Sector Impact

HFHMM strives to be the go-to organization for affordable housing and for owner-occupied neighborhood revitalization. HFHMM plans to strategically facilitate and support increased opportunities for affordable housing through collaborations with the affordable housing sector.

#### Societal Impact

HFHMM believes it is an organization that inspires action to end poverty housing. One of our goals is to increase awareness of the need and value of affordable housing. We study and forecast the impact of our work in the communities we service. In a recent *Habitat Homeowner Study*, conducted by *Habitat for Humanity International*, Habitat homeownership contributes to self-esteem and well-being, improved family mental and physical health, community awareness, and a feeling of neighborhood pride. Habitat homeowners pay taxes and are more likely to vote. As well, Habitat homeowners are able to save more, pursue advanced educational opportunities, and work towards achieving financial stability. By providing a stable home, Habitat homeownership is more likely to prevent the fracturing of families. We will continue to maintain and grow the volunteer base in Montgomery County and Prince George's County. In addition, we will continue to serve families internationally through our global partnerships to which we have tithed \$67,000 and \$54,996, respectively.

#### Build a Sustainable Organization

HFHMM will continue to mobilize resources and steward them faithfully. We will continue to fund our mission strategically, grow our skills and leadership capabilities, and operate with excellence.

### **Organizational Data, Statistics, and Financial Reporting**

Since 1982 (inception), HFHMM has served 288 families and 368 projects through new construction, neighborhood revitalization, weatherization, minor home repair, and major home repair, of which 44 were served in 2017 and 32 were served in 2016.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

From an organization and financial reporting perspective, Habitat for Humanity Metro Maryland is a nonprofit corporation that follows accounting principles generally accepted in the United States (GAAP).

- Habitat for Humanity Metro Maryland operates under a unique business model. In addition to its retail operation, new home construction, home renovation initiatives, HFHMM acts as the mortgage servicer and lends money to homebuyers at a below market interest rate (0%). HFHMM records the loan receivable at their face value, but net of the mortgage discounts using interest rates established by Habitat International (7.47% for 2017). Other non-cash transactions that impact HFHMM's financial reporting represent amortization of deferred gains on home sales, depreciation and amortization, and amortization of the discount of notes payable. The result of those non-cash entries in a year with significant home sales results in the statement of activities reflecting significant losses. We encourage the readers' of our financial statements to focus on the statement of cash flows as part of the overall financial statement package.

A reader will notice that for the years ending June 30, 2017 and 2016:

- The change in net assets were (\$256,047) and (\$531,702), respectively. However, cash flows from operating activities were (\$116,551) and \$126,596, respectively.
- As of June 30, 2017 and 2016, mortgage loan receivable, net of discounts included in the statements of financial position were \$4,852,098 and \$4,742,900, respectively. These mortgage loans receivable have gross or face values of \$10,970,577 and \$10,902,451, respectively. This compares to notes payable net of discounts \$7,176,558 and \$6,932,547, respectively. These notes payable have gross or face values of \$8,672,549 and \$8,352,791, respectively.

HFHMM also retains an equity interest in the properties. Presently, if the home is sold in years 1 through 5, then HFHMM retains 100% equity, then HFHMM's equity interest is reduced 3% in each succeeding year thereafter with HFHMM always retaining a 25% equity in the home.

To facilitate operating cash flow in the effort to support its mission and goals, HFHMM has the option to assign its mortgages to a bank, whereby HFHMM receives approximately 80% of the value of the mortgage in cash while still guaranteeing 100% of the loan. As of June 30, 2017, HFHMM had assigned 47 loans under this arrangement. HFHMM, under its strategic plan, has set goals to increase fundraising to permit land acquisition and construction from operating cash and thus avoid mortgage assignments and construction loans. This would allow HFHMM to re-invest the mortgage payments into additional projects. In addition, HFHMM will look to enhance the ReStore's profitability and examine future locations to further assist in funding the mission and goals.

Since 1982, HFHMM has closed on 91 mortgage loans with its homebuyers, of which 79 are still active as of June 30, 2017. Mortgage note receivables, net, at June 30, 2017 and 2016 were \$4,852,098 and \$4,742,900, respectively (see Note 3).

*Please refer to the following accompanying financial statements and the notes to the financial statements.*



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## INDEPENDENT AUDITORS' REPORT

### **Board of Directors**

**Habitat for Humanity Metro Maryland, Inc.**  
**Silver Spring, Maryland**

We have audited the accompanying financial statements of **Habitat for Humanity Metro Maryland, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**

**Independent Auditor's Report**

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Habitat for Humanity Metro Maryland, Inc.** as of June 30, 2017 and 2016, 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.

*DeLeon & Stang*

**DeLeon & Stang, CPAs and Advisors**

**Gaithersburg, Maryland**

**November 6, 2017**

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

|   | <b>2017</b>         | <b>2016</b>         |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Cash and cash equivalents   | \$ 642,899          | \$ 658,750          |
| Restricted cash   | 108                 | 5,160               |
| Grants and contracts receivable   | 247,556             | 38,761              |
| Mortgage loans receivable, net of discounts of \$6,118,479<br>and \$6,159,551, respectively         | 4,852,098           | 4,742,900           |
| Inventories   | 501,676             | 570,551             |
| Property and equipment, net of accumulated depreciation of<br>\$323,124 and \$226,617, respectively | 707,252             | 790,044             |
| Other assets  | 87,784              | 180,673             |
|   | <b>\$ 7,039,373</b> | <b>\$ 6,986,839</b> |
| <b>Total Assets</b>   |                     |                     |
| <b>Liabilities and net (deficit) assets</b>   |                     |                     |
| <u>Liabilities:</u>   |                     |                     |
| Accounts payable and accrued expenses   | \$ 240,593          | \$ 214,948          |
| Homeowner escrow deposits   | 10,307              | 13,786              |
| Lines of credit   | 248,392             | 183,767             |
| Deferred rent   | 862,638             | 856,940             |
| Notes payable and mortgage note assignments   | 7,176,558           | 6,932,547           |
| Deferred gain on home sales   | 798,067             | 825,986             |
|   | 9,336,555           | 9,027,974           |
| <u>Net (deficit) assets:</u>  |                     |                     |
| Net deficit, unrestricted   | (2,297,182)         | (2,075,565)         |
| Net assets, temporarily restricted  | -                   | 34,430              |
|   | (2,297,182)         | (2,041,135)         |
|   | <b>\$ 7,039,373</b> | <b>\$ 6,986,839</b> |
| <b>Total liabilities and net (deficit) assets</b>   |                     |                     |



**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2017 and 2016**

|  | <b>2017</b>    | <b>2016</b>    |
|--|----------------|----------------|
| <b>Unrestricted net assets</b>                 |                |                |
| <u>Revenue and support:</u>                    |                |                |
| Contributions, grants and contracts            | \$ 1,145,744   | \$ 929,585     |
| Home sales                                     | 716,150        | 811,500        |
| ReStore sales                                  | 1,843,964      | 1,546,133      |
| Special events income                          | 268,553        | 253,076        |
| In-kind contributions                          | 4,018          | 11,215         |
| Imputed mortgage interest income               | 370,783        | 355,146        |
| Mortgage subsidy recapture                     | 110,293        | 28,226         |
| Loss on extinguishment of notes payable        | (16,345)       | (8,245)        |
| Loss on disposal of assets                     | -              | (7,137)        |
| Interest and other income (loss)               | 2,525          | (6,030)        |
| Net assets released from restriction           | 34,430         | -              |
| Total unrestricted revenue and support         | 4,480,115      | 3,913,469      |
| <u>Expenses:</u>                               |                |                |
| Program services:                              |                |                |
| Affordable residential housing                 | 2,365,767      | 2,235,309      |
| ReStore operating expenses                     | 1,617,431      | 1,618,085      |
| HFHI tithe expense                             | 67,000         | 54,996         |
| Total program services                         | 4,050,198      | 3,908,390      |
| Supporting services:                           |                |                |
| Fundraising                                    | 471,881        | 421,556        |
| Management and general                         | 179,653        | 149,655        |
| Total supporting services                      | 651,534        | 571,211        |
| Total expenses                                 | 4,701,732      | 4,479,601      |
| Change in unrestricted net (deficit) assets    | (221,617)      | (566,132)      |
| <b>Temporarily restricted net assets</b>       |                |                |
| Contributions and grants                       | -              | 34,430         |
| Net assets released from restriction           | (34,430)       | -              |
| Change in temporarily restricted net assets    | (34,430)       | 34,430         |
| <b>Change in net (deficit) assets</b>          | (256,047)      | (531,702)      |
| <b>Net (deficit) assets, beginning of year</b> | (2,041,135)    | (1,509,433)    |
| <b>Net deficit, end of year</b>                | \$ (2,297,182) | \$ (2,041,135) |

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2017 and 2016**

**2017**

|                               | <b>Affordable<br/>Residential<br/>Housing</b> | <b>ReStore</b>      | <b>Grant to<br/>Habitat for<br/>Humanity,<br/>International</b> | <b>Total<br/>Program<br/>Expenses</b> | <b>Fundraising</b> | <b>Management<br/>and General</b> | <b>Total<br/>Expenses</b> |
|-------------------------------|---|---------------------|---|---------------------------------------|--------------------|-----------------------------------|---------------------------|
| Salaries and wages            | \$ 389,572                                    | \$ 593,094          | \$ -  | \$ 982,666                            | \$ 337,376         | \$ 86,362                         | \$ 1,406,404              |
| Cost of home sales            | 784,161                                       | -                   | -   | 784,161                               | -                  | -                                 | 784,161                   |
| Rent                          | 62,101  | 424,325             | -   | 486,426                               | 31,051             | 31,050                            | 548,527                   |
| Mortgage subsidies            | 440,004                                       | -                   | -   | 440,004                               | -                  | -                                 | 440,004                   |
| Critical repair               | 295,414                                       | -                   | -   | 295,414                               | -                  | -                                 | 295,414                   |
| Interest                      | 127,524                                       | 21,191              | -   | 148,715                               | -                  | -                                 | 148,715                   |
| Health benefits               | 28,228  | 65,879              | -   | 94,107                                | 7,654              | 8,602                             | 110,363                   |
| Payroll taxes                 | 30,932  | 49,349              | -   | 80,281                                | 20,799             | 6,612                             | 107,692                   |
| Depreciation and amortization | 4,229   | 90,634              | -   | 94,863                                | 1,174              | 470                               | 96,507                    |
| Home weatherization           | 89,276  | -                   | -   | 89,276                                | -                  | -                                 | 89,276                    |
| HFHI tithe expense            | -   | -                   | 67,000  | 67,000                                | -                  | -                                 | 67,000                    |
| Utilities                     | 4,201   | 49,188              | -   | 53,389                                | 1,947              | 1,865                             | 57,201                    |
| Miscellaneous                 | 48,514  | 4,742               | -   | 53,256                                | 1,380              | 1,726                             | 56,362                    |
| Rent CAM                      | -   | 53,436              | -   | 53,436                                | -                  | -                                 | 53,436                    |
| Insurance                     | 10,879  | 36,762              | -   | 47,641                                | 1,623              | 1,536                             | 50,800                    |
| Real estate taxes             | -   | 50,004              | -   | 50,004                                | -                  | -                                 | 50,004                    |
| Facility maintenance          | 3,270   | 39,353              | -   | 42,623                                | 1,176              | 1,176                             | 44,975                    |
| Equipment maintenance         | 8,855   | 24,532              | -   | 33,387                                | 5,863              | 5,602                             | 44,852                    |
| Printing and publication      | 1,360   | 643                 | -   | 2,003                                 | 40,524             | -                                 | 42,527                    |
| Advertising                   | -   | 35,712              | -   | 35,712                                | -                  | -                                 | 35,712                    |
| Supplies                      | 8,694   | 10,280              | -   | 18,974                                | 6,400              | 5,713                             | 31,087                    |
| Bank fees                     | -   | 28,373              | -   | 28,373                                | -                  | 1,214                             | 29,587                    |
| Inventory pickup              | -   | 16,874              | -   | 16,874                                | 879                | -                                 | 17,753                    |
| Travel                        | 11,509  | -                   | -   | 11,509                                | 5,968              | -                                 | 17,477                    |
| Accounting fees               | -   | -                   | -   | -                                     | -                  | 16,786                            | 16,786                    |
| Equipment                     | -   | 15,160              | -   | 15,160                                | -                  | -                                 | 15,160                    |
| Conference, convention        | 4,713   | 1,344               | -   | 6,057                                 | 1,635              | 7,003                             | 14,695                    |
| Retirement plan contributions | 4,153   | 3,396               | -   | 7,549                                 | 1,111              | 1,618                             | 10,278                    |
| Team building                 | 9,203   | -                   | -   | 9,203                                 | -                  | -                                 | 9,203                     |
| Postage and delivery          | 2,029   | -                   | -   | 2,029                                 | 4,242              | 179                               | 6,450                     |
| Payroll processing            | 916   | 1,760               | -   | 2,676                                 | 989                | 916                               | 4,581                     |
| Volunteers                    | 4,072   | -                   | -   | 4,072                                 | -                  | -                                 | 4,072                     |
| Professional expenses         | 2,378   | 1,209               | -   | 3,587                                 | 90                 | 91                                | 3,768                     |
| Dues and fees                 | -   | 191                 | -   | 191                                   | -                  | 1,132                             | 1,323                     |
| Construction (recovery)       | (10,420)                                      | -                   | -   | (10,420)                              | -                  | -                                 | (10,420)                  |
|                               | <u>\$ 2,365,767</u>                           | <u>\$ 1,617,431</u> | <u>\$ 67,000</u>  | <u>\$ 4,050,198</u>                   | <u>\$ 471,881</u>  | <u>\$ 179,653</u>                 | <u>\$ 4,701,732</u>       |

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Years Ended June 30, 2017 and 2016**

|                               | <b>2016</b>                                   |                     |   |                                       |                    |                                   |                       |
|-------------------------------|---|---------------------|---|---------------------------------------|--------------------|-----------------------------------|-----------------------|
|                               | <b>Affordable<br/>Residential<br/>Housing</b> | <b>ReStore</b>      | <b>Grant to<br/>Habitat for<br/>Humanity,<br/>International</b> | <b>Total<br/>Program<br/>Expenses</b> | <b>Fundraising</b> | <b>Management<br/>and General</b> | <b>Total Expenses</b> |
| Salaries and wages            | \$ 330,864                                    | \$ 574,065          | \$ -  | \$ 904,929                            | \$ 281,257         | \$ 76,573                         | \$ 1,262,759          |
| Cost of home sales            | 809,048                                       | -                   | -   | 809,048                               | -                  | -                                 | 809,048               |
| Rent                          | 50,827  | 449,960             | -   | 500,787                               | 18,916             | 14,011                            | 533,714               |
| Mortgage subsidies            | 492,726                                       | -                   | -   | 492,726                               | -                  | -                                 | 492,726               |
| Home weatherization           | 147,993                                       | -                   | -   | 147,993                               | -                  | -                                 | 147,993               |
| Loan interest                 | 127,333                                       | 19,517              | -   | 146,850                               | -                  | -                                 | 146,850               |
| Critical repair               | 113,210                                       | -                   | -   | 113,210                               | -                  | -                                 | 113,210               |
| Health benefits               | 14,285  | 64,295              | -   | 78,580                                | 13,451             | 8,613                             | 100,644               |
| Payroll taxes                 | 22,127  | 47,296              | -   | 69,423                                | 19,966             | 6,599                             | 95,988                |
| Utilities                     | 9,286   | 54,171              | -   | 63,457                                | 2,264              | 2,385                             | 68,106                |
| Professional expenses         | 2,000   | 55,339              | -   | 57,339                                | 936                | 2,076                             | 60,351                |
| Depreciation and amortization | 3,229   | 54,547              | -   | 57,776                                | 897                | 359                               | 59,032                |
| HFHI tithe expense            | -   | -                   | 54,996  | 54,996                                | -                  | -                                 | 54,996                |
| Printing and publication      | 5,677   | 1,859               | -   | 7,536                                 | 46,730             | -                                 | 54,266                |
| Real estate taxes             | 3,017   | 49,985              | -   | 53,002                                | 836                | 335                               | 54,173                |
| Insurance                     | 16,921  | 31,338              | -   | 48,259                                | 2,232              | 2,291                             | 52,782                |
| Rent CAM                      | 2,864   | 46,725              | -   | 49,589                                | 797                | 318                               | 50,704                |
| Equipment maintenance         | 7,684   | 29,659              | -   | 37,343                                | 5,601              | 4,064                             | 47,008                |
| Miscellaneous                 | 38,553  | 5,462               | -   | 44,015                                | 1,069              | 1,434                             | 46,518                |
| Supplies                      | 11,958  | 21,798              | -   | 33,756                                | 7,200              | 4,155                             | 45,111                |
| Bank fees                     | -   | 25,358              | -   | 25,358                                | -                  | 3,494                             | 28,852                |
| Advertising                   | -   | 24,348              | -   | 24,348                                | -                  | -                                 | 24,348                |
| Facility maintenance          | 1,961   | 20,994              | -   | 22,955                                | 694                | 667                               | 24,316                |
| Accounting fees               | -   | -                   | -   | -                                     | -                  | 15,300                            | 15,300                |
| Equipment                     | 475   | 14,243              | -   | 14,718                                | 475                | -                                 | 15,193                |
| Inventory pickup              | -   | 12,690              | -   | 12,690                                | 2,345              | -                                 | 15,035                |
| Travel                        | 7,147   | -                   | -   | 7,147                                 | 6,191              | -                                 | 13,338                |
| Conference, convention        | 5,675   | 2,990               | -   | 8,665                                 | 1,705              | 2,863                             | 13,233                |
| Retirement plan contributions | 3,524   | 2,918               | -   | 6,442                                 | 1,859              | 1,285                             | 9,586                 |
| Postage and delivery          | 1,376   | 891                 | -   | 2,267                                 | 5,140              | 556                               | 7,963                 |
| Dues and fees                 | -   | 5,800               | -   | 5,800                                 | -                  | 1,275                             | 7,075                 |
| Team building                 | 5,208   | -                   | -   | 5,208                                 | 49                 | -                                 | 5,257                 |
| Payroll processing            | 949   | 1,837               | -   | 2,786                                 | 946                | 1,002                             | 4,734                 |
| Volunteers                    | 1,945   | -                   | -   | 1,945                                 | -                  | -                                 | 1,945                 |
| Construction (recovery)       | (2,553)                                       | -                   | -   | (2,553)                               | -                  | -                                 | (2,553)               |
|                               | <u>\$ 2,235,309</u>                           | <u>\$ 1,618,085</u> | <u>\$ 54,996</u>  | <u>\$ 3,908,390</u>                   | <u>\$ 421,556</u>  | <u>\$ 149,655</u>                 | <u>\$ 4,479,601</u>   |

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2017 and 2016**

|   | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|
| <b><u>Cash Flows From Operating Activities:</u></b>   |              |              |
| Change in net assets  | \$ (256,047) | \$ (531,702) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |              |              |
| Depreciation and amortization   | 96,507       | 59,032       |
| Loss on disposal of property and equipment  | -            | 7,137        |
| Amortization of deferred gain on sale of homes  | (27,919)     | (16,373)     |
| Amortization of discount on notes payable   | 109,750      | 103,827      |
| Accretion of discount on mortgage notes receivable  | (370,783)    | (355,146)    |
| Loss on extinguishment of notes payable   | 16,345       | 8,245        |
| Mortgage subsidy recapture  | (110,293)    | (28,226)     |
| Mortgage subsidies-mortgage discount on homes sold  | 440,004      | 492,726      |
| Decrease (increase) in operating assets:  |              |              |
| Restricted cash   | 5,052        | 19,867       |
| Grants and contracts receivable   | (208,795)    | 6,716        |
| Inventories   | 68,875       | (142,767)    |
| Other assets  | 92,889       | (139,046)    |
| (Decrease) increase in operating liabilities:   |              |              |
| Accounts payable and accrued expenses   | 25,645       | 52,790       |
| Homeowner escrow deposits   | (3,479)      | (16,643)     |
| Deferred rent   | 5,698        | 606,159      |
| Net cash (used in) provided by operating activities   | (116,551)    | 126,596      |
| <b><u>Cash Flows From Investing Activities:</u></b>   |              |              |
| Issuance of mortgage loans, net of repayments   | (68,126)     | (322,327)    |
| Purchases of property and equipment   | (13,715)     | (559,128)    |
| Net cash used in investing activities   | (81,841)     | (881,455)    |
| <b><u>Cash Flows From Financing Activities:</u></b>   |              |              |
| Proceeds from nonsale transfer of mortgage loans receivable-secured borrowing               | 807,368      | 255,153      |
| Proceeds from lines of credit, net of repayments  | 64,625       | 433,767      |
| Repayment of notes payable  | (689,452)    | (370,957)    |
| Net cash provided by financing activities   | 182,541      | 317,963      |
| <b>Net decrease in cash and cash equivalents</b>  | (15,851)     | (436,896)    |
| <b>Cash and cash equivalents at beginning of year</b>                                       | 658,750      | 1,095,646    |
| <b>Cash and cash equivalents at end of year</b>   | \$ 642,899   | \$ 658,750   |
| <b><u>Supplemental Cash Flow Information:</u></b>   |              |              |
| Cash paid for interest  | \$ 43,024    | \$ 20,862    |
| <b><u>Noncash financing activities:</u></b>   |              |              |
| Line of credit converted to note payable  | \$ 250,000   | \$ 250,000   |

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 1 - ORGANIZATION**

Habitat for Humanity of Montgomery County Maryland, Inc. (Habitat) is a nonprofit corporation that was formed under the laws of the State of Maryland on October 29, 1982, for the purpose of constructing affordable housing for qualified low-income families. Habitat also has a retail operation that sells donated reusable and surplus building materials to the public. In April 2013, Habitat's Board of Directors approved a resolution to operate as Habitat for Humanity Metro Maryland, Inc., to better represent Habitat's service area which has expanded to one additional county in Maryland.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Habitat complies with the Not-for-Profit Entities Revenue Recognition Subtopic and the Not-For-Profit Entities Presentation of Financial Statements Subtopic of the FASB Accounting Standards Codification. Under the provisions of these standards, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. These standards require a statement of financial position, a statement of activities, and a statement of cash flows. Accordingly, the net assets of Habitat and the changes therein, are classified and reported as follows:

*Unrestricted net assets* – This category is used to record activity that has not been restricted by a donor or funding source.

*Temporarily restricted net assets* – This classification is used to record contributions that have been specifically restricted by time or purpose of the donor. Restricted contributions are recorded as revenue when the donor has made a gift rather than when the cash is actually received. Once the restriction has been satisfied, a reclassification is made from temporarily restricted net assets to unrestricted net assets.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

*Permanently restricted net assets* – This classification is used for net assets subject to donor imposed stipulations that they be maintained permanently by Habitat. There are no permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, money market accounts, and short-term investments purchased with original maturities of three months or less, if any. Cash at bank may, at times, exceed federally insured limits.

Grants and Contracts Receivable

Habitat is funded through various grants, cost reimbursements, and performance-based contracts. Habitat accounts for the grants and contracts as exchange transactions. Revenue is recognized as an increase in the statements of activities assets as stipulated performance is executed, or as expenditures are incurred in accordance with applicable agreements under expenditure reimbursement contracts. A receivable is recorded to the extent grant and contract revenue exceeds payment.

Inventories

Inventories consist of construction-in-progress, developed lots available for construction, and ReStore (thrift store) inventory. Construction-in-progress represents the costs incurred on housing units under construction. Costs include direct material and labor costs and those indirect costs related to construction completion such as indirect labor, fringe benefits, and allocated overhead. Assets are removed from investing to construction-in progress when construction begins. Assets under construction are classified as construction in progress until completed and transferred to the homeowner. Real estate taxes and interest are capitalized during the construction period. Interest included in construction-in-progress at June 30, 2017 and 2016 was \$622 and \$2,581, respectively. ReStore inventory consists of donated building materials and home furnishings that are sold to the public at a discounted price. ReStore inventory is carried at fair value and estimated using historical turnover in lieu of a physical count.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment purchased with a cost basis greater than \$1,000 are recorded at cost when acquired and depreciated using the straight-line method over three to five years.

Mortgage Loans Receivable

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the Habitat for Humanity International Accounting Manual, when a house is sold and title transferred to a homeowner, revenue is recorded for the house price and a mortgage loan receivable, discounted to the present value of cash payments to be received over the term of the note (see Note 3), set up. At the same time, construction in progress inventory cost for the house is transferred to program services expense. Habitat obtains a note and deed of trust on the property from the homebuyer. In addition, Habitat retains a second lien on the property in the event the lower of cost or fair market value is greater than the sales price of the home. The homeowner will pay off the second lien to Habitat only if the home is sold prior to paying off the first mortgage. Habitat orders an appraisal of the home when it is completed, and the property cannot have a combined first and second note that is higher than the appraised value. Habitat also retains an equity interest in property. If the home is sold in years 1 through 5, Habitat retains a 100% equity interest. Habitat's equity interest is reduced by 3% each succeeding year to maturity. The mortgage note receivable is reduced by monthly payments made by the homebuyer, usually over a 20 to 30 year period. Habitat has a collection policy in force, which requires collection action at a regular interval beginning with 15 days delinquency. Defaults over 90 days are subject to possible foreclosure if the default is not cured. At June 30, 2017 and 2016, no amounts were more than 90 days delinquent.

Deferred Gain on Home Sales

Habitat accounts for home sales in accordance with the provisions of the Real Estate Sales Subtopic of the FASB Accounting Standards Codification. Losses on the sale of homes are recognized as they are incurred, but gains are deferred and credited to earnings over the life of the mortgage notes receivable using the installment sale method, which apportions each cash receipt and principal payment by the buyer on debt assumed between cost recovered and profit. The apportionment is in the same ratio as total cost and total profit bear to the sales value.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions, Grants and Contracts

All contributions, grants and contracts to Habitat are considered to be available for unrestricted use in the year received, unless specifically restricted by the donor. Amounts received that are designated for future periods or that are restricted by the donor for specific purposes, if any, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. If a restriction is fulfilled in the same period in which the donation was received, the amount is reported as unrestricted. If conditional promises to give are received, those contributions are recorded as the conditions are met.

Habitat also operates a ReStore operation which re-sells donated furniture and household appliances and materials. Revenue and expenses are recognized at the time merchandise is transferred to the customer. Sales returns have not been significant.

In-Kind Contributions

Habitat receives donations of land, products, and services from individual and corporate donors. These contributions are recorded at their estimated fair market value at their date of donation.

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Otherwise, volunteer services are not recorded in the financial statements as these contributions do not meet the requirements to be recorded as revenue and expense.

Allocation of Costs

The cost of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs benefited.



**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Sales Tax

The State imposes a sales tax of 6% on all of Habitat's sales to non-exempt customers. Habitat collects that sales tax from customers and remits the entire amount to the State. Habitat's policy is to report sales net of sales tax.

Advertising

Habitat expenses the costs of advertising as they are incurred.

Income Taxes

Habitat is exempt from Federal income taxes through the group exemption of Habitat for Humanity International under Section 501(c)(3) of the Internal Revenue Code.

Habitat's tax returns are subject to audit for three years after filing, hence Habitat's returns for tax years 2014 onwards are open to tax examination.

Evaluation of Subsequent Events

Management has evaluated the financial statements for subsequent events requiring accrual or disclosure through November 7, 2017, which is the date the financial statements were available to be issued.

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**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 3 - MORTGAGE LOANS RECEIVABLE**

For each property sold, Habitat lends money to the homebuyer at a below-market interest rate (generally zero percent). The receivable is recorded at the face value and discounted to reflect the present value of the receivable using rates between 7.48% and 8.48% based upon guidelines established by Habitat for Humanity International. The amount of the discount is charged to program expenses when the mortgage loans are issued. The amount of discount charged to program expenses in 2017 and 2016 was \$440,004 and \$492,726, respectively. The discount is accreted to income over the life of the note. The amount of discount accredited to income in 2017 and 2016 was \$370,783 and \$355,146, respectively. Mortgage loans receivable at June 30, 2017 and 2016 consist of the following:

|                           | <u>2017</u>         | <u>2016</u>         |
|---------------------------|---------------------|---------------------|
| Mortgage loans receivable | \$ 10,970,577       | \$ 10,902,451       |
| Less: mortgage discount   | (6,118,479)         | (6,159,551)         |
|                           | <u>\$ 4,852,098</u> | <u>\$ 4,742,900</u> |

Habitat transfers mortgage loans receivable to financial institutions in accordance with the Transfer and Servicing Topic of the FASB Accounting Standards Codification, under separate transfer and servicing agreements. As of June 30, 2017, Habitat had transferred forty nine mortgage loans receivable. As of June 30, 2016, Habitat had transferred forty five mortgage loans receivable. All mortgage loans receivable were transferred with full recourse at present value. Under the terms of the agreements, Habitat continues to service these loans and remits payments to the transferees. Habitat retains full responsibility for defaults or delinquencies. Accordingly, the transfers are accounted for as a secured borrowing. As of June 30, 2017, total recourse mortgage loans receivable have a face and present value of \$8,201,703 and \$1,481,346, respectively. As of June 30, 2016, total recourse mortgage loans receivable have a face and present value of \$7,600,520 and \$1,401,283, respectively.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 4 - INVENTORIES**

Inventories consist of the following components at June 30:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Homes under construction or renovation | \$ 265,774        | \$ 379,930        |
| ReStore inventory                      | 229,402           | 190,621           |
|  | <u>\$ 501,676</u> | <u>\$ 570,551</u> |

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| Equipment-contruction                     | \$ 7,064          | \$ 7,064          |
| Equipment-office                          | 55,373            | 55,373            |
| ReStore leasehold improvements            | 869,910           | 856,195           |
| Vehicles                                  | 76,541            | 76,541            |
| Leashold improvements                     | 21,488            | 21,488            |
|   | <u>1,030,376</u>  | <u>1,016,661</u>  |
| Accumulated depreciation and amortization | <u>(323,124)</u>  | <u>(226,617)</u>  |
|   | <u>\$ 707,252</u> | <u>\$ 790,044</u> |

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$96,507 and \$59,032, respectively.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 6 - LOANS, LINES OF CREDIT AND COMMITMENTS**

Notes Payable

On January 6, 2003, Habitat entered into an agreement with OBA Federal Savings Bank (First National Bank) (Note A) for four separate notes payable of \$80,000 each, totaling \$320,000. The notes are collateralized by the homes funded by those notes payable. Each note payable matures on October 1, 2023, carries a zero interest rate, and is repayable in 240 equal monthly payments of approximately \$333. During 2016, Habitat repaid one of these notes payable in full. The principal balance outstanding on these notes at June 30, 2017 and 2016 was \$76,811 and \$88,811, respectively. At June 30, 2017 and 2016, these notes payable are included in the statements of financial position at discounted values of approximately \$62,206 and \$69,850, respectively, which represent the present value of the remaining monthly payments at the statement of financial position date. Interest expense imputed on these notes for years ended June 30, 2017 and 2016 payable was \$4,355 and \$4,797, respectively.

On December 1, 2010, Habitat entered into an agreement with OBA Federal Savings Bank (First National Bank) for a note payable of \$215,000. The note is collateralized by four properties constructed in Burtonsville, Maryland. This note payable matures on December 1, 2040 and carries a fixed interest rate of 5.5%. Payments of \$1,231 are due monthly. The principal balance outstanding on this note at June 30, 2016 was \$196,963. During 2017, this note was terminated in connection with an owner sale.

Secured Borrowing—Nonsale Transfer of Mortgage Loans Receivable

As discussed in Note 3, Habitat services a total of forty seven mortgage loans receivable that were transferred with full recourse to three financial institutions (Note C). Under the terms of transfer and servicing agreements, Habitat collects and remits the homeowners mortgage payments to each financial institution, retaining full responsibility for any defaults or delinquencies. Under the Transfers and Servicing Topic of FASB Accounting Standards Codification, the transfer is accounted for as a secured borrowing and included in notes payable in the accompanying statements of financial position. The present value of these transferred mortgage loans receivable at June 30, 2017 and 2016 was \$6,720,357 and \$6,199,237, respectively.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 6 - LOANS, LINES OF CREDIT AND COMMITMENTS (Continued)**

Secured Borrowing—Nonsale Transfer of Mortgage Loans Receivable  
(Continued)

Habitat maintained a \$250,000 line of credit with First National Bank. In October 2015, the outstanding balance on this line of credit (\$250,000) was converted into a 5 year amortizing note payable (Note D). The note requires monthly installments of \$4,726 and charges interest at 5%. The loan matures in 2020. The principal outstanding on this note payable was \$170,115 at June 30, 2017.

Habitat maintained a \$250,000 line of credit with United Bank. In December 2016, the outstanding balance on this line of credit (\$250,000) was converted into a 5 year amortizing note payable (Note B). The note required monthly installments of \$4,655 and charges interest at 4.4%. The loan matures in 2021. The principal outstanding on this note payable was \$223,607 at June 30, 2017.

Future principal payments of notes payable and transferred mortgage loans for fiscal years ending June 30 are as follows:

|            | <b>Note A</b>    | <b>Note B</b>     | <b>Note C</b>       | <b>Note D</b>     | <b>Total</b>       |
|------------|------------------|-------------------|---------------------|-------------------|--------------------|
| 2018       | \$ 8,200         | \$ 46,959         | \$ 216,531          | \$ 49,201         | \$ 320,891         |
| 2019       | 8,750            | 49,068            | 220,500             | 51,770            | 330,088            |
| 2020       | 9,336            | 51,271            | 224,061             | 54,473            | 339,141            |
| 2021       | 9,961            | 53,573            | 227,683             | 14,671            | 305,888            |
| 2022       | 10,628           | 22,736            | 231,361             | -                 | 264,725            |
| Thereafter | 15,330           | -                 | 5,600,495           | -                 | 5,615,825          |
|            | <u>\$ 62,205</u> | <u>\$ 223,607</u> | <u>\$ 6,720,631</u> | <u>\$ 170,115</u> | <u>\$7,176,558</u> |

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 6 - LOANS, LINES OF CREDIT AND COMMITMENTS (Continued)**

Lines of Credit

Habitat has a \$150,000 line of credit with Sandy Spring Bank. Loan terms are 1% under the Prime Index (4.25% at June 30, 2017). Interest only payments are due on the first of each month with principal and accrued interest due on November 1<sup>st</sup>, annually, on which date the line of credit is renewable. Habitat drew \$150,000 on the line of credit during 2017. The outstanding balance on this line of credit at June 30, 2017 was \$150,000. There was no outstanding balance at June 30, 2016.

During 2016, Habitat executed a \$500,000 line of credit with Old Line Bank. Loan terms are the greater of .5% above the Prime Index (3.5% at June 30, 2016) or 4.5%. Interest-only payments are due each month. The line of credit renews annually. Outstanding principal is due on due at maturity (March, 2017). However, Habitat anticipates that an additional one year renewal will be granted by Old Line Bank upon Maturity. The outstanding balance on this line of credit at June 30, 2017 and 2016 was \$98,392 and \$183,767, respectively.

Lease Commitments

In October 2015, Habitat entered into a lease for 22,125 square feet of retail space in Rockville, Maryland. The space will be used to facilitate Habitat's Rockville Maryland ReStore location. The lease commenced November 2015. The lease is a ten-year operating lease with a monthly base rent of \$20,742, which is subject to an annual 2.5% increase. Terms of the agreement provide a rent abatement for an eight month period beginning November 2015. In addition, Habitat received a \$442,500 improvement allowance. Rent adjustments, abatement, and the improvement allowance are recognized as an adjustment to rent expense on a straight-line basis over the lease term.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 6 - LOANS, LINES OF CREDIT AND COMMITMENTS (Continued)**

Lease Commitments (Continued)

In March 2014, Habitat entered into a lease for 15,000 square feet of retail space in Silver Spring, Maryland. The space will be used to facilitate a second ReStore location in Silver Spring, Maryland. The lease commenced August 2014. The lease is a ten-year operating lease with a monthly base rent of \$17,070, which is subject to an annual 2.5% increase. Terms of the agreement provide a rent abatement for the months of September, October and November 2014. In addition, Habitat received a \$200,000 improvement allowance. Rent adjustments, abatement, and the improvement allowance are recognized as an adjustment to rent expense on a straight-line basis over the lease term.

In February 2016, Habitat entered into a lease for office space in Silver Spring, Maryland. The lease commenced February 2016. The lease is for a period of ten years and six months. The lease requires monthly base rent of \$9,561, which is subject to an annual 2.5% increase. Terms of the agreement provide a 50% rent abatement for the first twelve months of occupancy. Rent abatements are recognized as an adjustment to rent expense on a straight-line basis over the lease term.

On November 1, 2005, Habitat entered into a lease for 15,965 square feet of retail and office space. This is a ten-year operating lease with a monthly base rent of \$15,300 and an annual escalation of 3% on each anniversary date. Habitat pays its portion of real-estate taxes and common area maintenance fees on a pro-rata basis. This was terminated January 2016.

Future minimum payments required under the lease are as follows:

Year ending June 30:

|            |    |                  |
|------------|----|------------------|
| 2018       | \$ | 583,818          |
| 2019       |    | 598,419          |
| 2020       |    | 613,370          |
| 2021       |    | 628,708          |
| 2022       |    | 644,431          |
| Thereafter |    | 2,258,705        |
|            | \$ | <u>5,327,451</u> |

Total rent expense for the years ended June 30, 2017 and 2016 was \$548,527 and \$533,714, respectively.

**HABITAT FOR HUMANITY METRO MARYLAND, INC.**  
**Notes to the Financial Statements (Continued)**  
**June 30, 2017 and 2016**

**NOTE 7 - IN-KIND CONTRIBUTIONS**

During the years ended June 30, 2017 and 2016, Habitat received in-kind contributions in the form of labor, materials and services valued at \$4,018 and \$11,215, which reflect the fair market value of similar materials and services. These in-kind donations appear as part of contribution revenue in the statements of activities.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

Habitat is an affiliate of Habitat for Humanity International (HFHI), who works as a partner with HFHI for the purpose of accomplishing their mission to construct affordable housing for qualified low-income families. Although HFHI assists Habitat with information resources, training, publications, and in other ways, the Habitat is primarily and directly responsible for the legal, organizational, fundraising, family selection and nurture, financial and construction aspects of the work. In recognition of and commitment to the global partnership that exists with Habitat for Humanity, the affiliate is expected to contribute a tithe to HFHI based on 10 percent of various unrestricted revenue items. The international tithe expense paid to HFHI for the years ended June 30, 2017 and 2016 was \$67,000 and \$54,996, respectively.

**NOTE 9 - RETIREMENT PLAN**

Habitat has a defined contribution plan in which all employees at least 21 years of age are eligible to participate. Employees may enter the plan after three consecutive calendar months of employment in which the individual is credited with at least 83-1/3 hours of service per month. Employees are 100% vested in voluntary contributions. Habitat may make a matching contribution, which is determined annually by the Board of Directors. Matching contributions are vested after 36 months of service. Habitat's contributions to the plan for the years ended June 30, 2017 and 2016 totaled \$10,278 and \$9,586, respectively.

**NOTE 10 - LITIGATION**

Habitat is the defendant in two lawsuits, it is the best judgment of management that neither the financial position nor results of operations of Habitat will be materially affected by the final outcome of these lawsuits.