HABITAT FOR HUMANITY METRO MARYLAND, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2018

DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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 year ending June 30, 2018 were $1,756,689

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-rocketed, 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 and weatherize their current home.

Our mission is to create simple, decent and affordable homeownership opportunities in Montgomery and Prince George's Counties, Maryland. 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.

Strategic Planning

Community Impact

For the fiscal years 2014 through 2018 HFHMM completed 277 projects through new construction, neighborhood revitalization, weatherization, minor home repair and major home repair. We are happy to report that we completed 45 projects in 2014 , 58 in 2015, 52 in 2016, 70 in 2017 and 52 in 2018. Our strategic plan for the next 5 years is to complete 80 repair/weatherization projects and rehab 2 homes per year. To achieve this goal, we are prepared to respond quickly as opportunities to serve arise. HFHMM currently has 26 projects in its pipeline, comprised of 13 in Montgomery County and 13 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.

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 321 families and 421 projects through new construction, neighborhood revitalization, weatherization, minor home repair, and major home repair, of which 34 were served in 2018.

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

<u>Organizational Data, Statistics, and Financial Reporting</u> (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 published by Freddie Mac. 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 year ending June 30, 2018:

- The change in net assets was ($1,443). However, cash flows from operating activities were ($458,161) due to an increase in inventories resulting from the timing of a home sale that occurred in early July 2018.
- As of June 30, 2018, mortgage loans receivable, net of discounts included in the statements of financial position were $6,715,529. These mortgage loans receivable have gross or face values of $11,054,430. This compares to notes payable net of discounts of $7,593,073 These notes payable have gross or face values of $9,160,367.

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, 2018, HFHMM had assigned 55 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 93 mortgage loans with its homebuyers, of which 80 are still active as of June 30, 2018. Mortgage loans receivables, net, at June 30, 2018 was $6,715,529 (see Note 4).

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

DeLeon & Stang
Certified Public Accountants and Advisors

www.deleonandstang.com

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 statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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, 2018, and the changes in its net (deficit) assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As described in Note 3 to the financial statements, certain errors resulting in the understatement of amounts previously reported for mortgage loans receivable, net of discounts, and deferred gain on home sales were discovered in the current year. Accordingly, amounts reported for mortgage loans receivable, net of discounts, and deferred gain on home sales have been restated in the 2017 financial statements, and an adjustment has been made to the net deficit as of June 30, 2017. Our opinion is not modified with respect to that matter.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Gaithersburg, Maryland
November 9, 2018

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

Assets

Cash and cash equivalents	$ 528,909
Restricted cash	128
Grants and contracts receivable	155,759
Mortgage loans receivable, net of discounts of $4,338,901	6,715,529
Inventories	1,020,557
Property and equipment, net of accumulated depreciation of $419,769	626,844
Other assets	192,842
Total Assets	$ 9,240,568

Liabilities and net (deficit) assets

Liabilities:	
Accounts payable and accrued expenses	$ 215,923
Homeowner escrow deposits	21,056
Lines of credit	391,992
Deferred rent	817,201
Notes payable and mortgage note assignments	7,593,073
Deferred gain on home sales	958,515
Total liabilities	9,997,760
Net (deficit) assets:	
Net deficit, unrestricted	(921,129)
Net assets, temporarily restricted	163,937
Total net deficit	(757,192)
Total liabilities and net (deficit) assets	$ 9,240,568

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Unrestricted net assets	
Revenue and support:	
Contributions, grants and contracts	$ 1,303,987
Home sales	544,000
ReStore sales	1,756,689
Special events income	341,209
Imputed mortgage interest income	299,282
Interest and other income	38,801
Total unrestricted revenue and support	4,283,968
Expenses:	
Program services:	
Affordable residential housing	2,113,827
ReStore operating expenses	1,657,155
Total program services	3,770,982
Supporting services:	
Fundraising	488,211
Management and general	190,155
Total supporting services	678,366
Total expenses	4,449,348
Change in unrestricted net deficit	(165,380)
Temporarily restricted net assets	
Contributions and grants	163,937
Change in temporarily restricted net assets	163,937
Change in net deficit	(1,443)
Net deficit, beginning of year as restated	(755,749)
Net deficit, end of year	$ (757,192)

See Accompanying Notes to the Financial Statements

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Affordable Residential Housing	ReStore	Total Program Expenses	Fundraising	Management and General	Total Expenses
Salaries and wages	$ 395,059	$ 613,098	$ 1,008,157	$ 343,234	$ 91,677	$ 1,443,068
Cost of home sales	664,342	-	664,342	-	-	664,342
Rent	62,164	424,325	486,489	31,082	31,082	548,653
Critical repair	340,352	-	340,352	-	-	340,352
Mortgage subsidies	250,269	-	250,269	-	-	250,269
Interest	136,601	18,444	155,045	-	-	155,045
Payroll taxes	31,039	51,645	82,684	25,252	7,948	115,884
Health benefits	20,739	64,469	85,208	9,744	9,077	104,029
Depreciation and amortization	2,989	92,493	95,482	830	333	96,645
Home weatherization	75,874	-	75,874	-	-	75,874
Miscellaneous	60,404	5,975	66,379	-	237	66,616
Utilities	5,582	45,651	51,233	2,838	2,743	56,814
Equipment maintanence	7,835	31,995	39,830	7,835	8,087	55,752
Real estate taxes	-	53,347	53,347	-	-	53,347
Insurance	11,619	35,670	47,289	1,604	1,604	50,497
Advertising	-	46,690	46,690	-	-	46,690
Facility maintenance	2,801	40,311	43,112	934	1,277	45,323
Printing and publication	1,025	608	1,633	42,025	-	43,658
Rent CAM	-	37,627	37,627	-	-	37,627
Bank fees	-	27,512	27,512	-	2,193	29,705
Supplies	8,960	9,460	18,420	5,431	4,799	28,650
Professional expenses	2,336	21,910	24,246	-	3,750	27,996
Team building	23,257	-	23,257	-	-	23,257
Accounting fees	-	-	-	-	18,083	18,083
Equipment	-	16,061	16,061	-	-	16,061
Inventory pickup	-	14,252	14,252	1,591	-	15,843
Retirement plan contributions	4,881	2,755	7,636	3,309	1,884	12,829
Travel	9,191	-	9,191	3,073	-	12,264
Postage and delivery	1,776	-	1,776	7,837	140	9,753
Conference, convention	2,993	563	3,556	515	3,847	7,918
Payroll processing	1,077	2,154	3,231	1,077	1,077	5,385
Volunteers	4,888	-	4,888	-	-	4,888
Dues and fees	-	140	140	-	317	457
Construction (recovery)	(14,226)	-	(14,226)	-	-	(14,226)
	$ 2,113,827	$ 1,657,155	$ 3,770,982	$ 488,211	$ 190,155	$ 4,449,348

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

Cash Flows From Operating Activities:	
Change in net assets	$ (1,443)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation and amortization	96,645
Amortization of deferred gain on sale of homes	(28,684)
Amortization of discount on notes payable	115,894
Accretion of discount on mortgage loans receivable	(299,282)
Mortgage subsidies-mortgage discount on homes sold	250,269
Decrease (increase) in operating assets:	
Restricted cash	(20)
Grants and contracts receivable	91,797
Inventories	(518,881)
Other assets	(105,058)
(Decrease) increase in operating liabilities:	
Accounts payable and accrued expenses	(24,670)
Homeowner escrow deposits	10,749
Deferred rent	(45,437)
Net cash used in operating activities	(458,121)
Cash Flows From Investing Activities:	
Issuance of mortgage loans, net of repayments	(83,853)
Purchases of property and equipment	(16,237)
Net cash used in investing activities	(100,090)
Cash Flows From Financing Activities:	
Proceeds from nonsale transfer of mortgage loans receivable-secured borrowing	748,471
Proceeds from lines of credit, net of repayments	143,600
Repayment of notes payable	(447,850)
Net cash provided by financing activities	444,221
Net decrease in cash and cash equivalents	(113,990)
Cash and cash equivalents at beginning of year	642,899
Cash and cash equivalents at end of year	$ 528,909
Supplemental Cash Flow Information:	
Cash paid for interest	$ 39,151

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 and rehabilitating 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.

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, 2018.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, money market accounts, and short-term investments purchased with original maturities of three months or less, if any. The Organization maintains cash balances in banks. These balances are insured by the Federal Deposit Insurance Corporation. Habitat's cash deposits may exceeded the Federal Deposit Insurance Corporation limits at various times throughout the fiscal year.

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 statement of activities 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 moved 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. There was no interest included in construction-in-progress at June 30, 2018. ReStore inventory is carried at fair value and estimated using historical turnover in lieu of a physical count.

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 ten 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 4), is 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 loan 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, 2018, 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 loans 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.

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 is 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.

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 filling, hence Habitat's returns for tax years 2015 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 9, 2018, which is the date the financial statements were available to be issued.

NOTE 3 - PRIOR PERIOD ADJUSTMENT

As described in Notes 2 and 4, Habitat maintains mortgage loans receivable related to the sale of homes. These loans charge below market value interest rates (generally zero percent). Accordingly, the mortgage loans receivable are discounted to reflect the present value of the receivable using a market value interest rate. Historically Habitat has used market value interest rates suggested by Habitat for Humanity International. However, during 2018 management determined that the rates suggested and used were above fair market value. This resulted in the overstatement of mortgage loan discounts and understatement net mortgage loans receivable and deferred gains on homes sales.

NOTE 3 - PRIOR PERIOD ADJUSTMENT (Continued)

Habitat has applied the following adjustments at June 30, 2017 to correct the effects of using below market interest rates in connection with discounting mortgage loans receivable.

Assets:	
Mortgage loans receivable, net of discounts as previously stated at June 30, 2017	$ 4,852,098
Adjustment	1,730,565
Mortgage loans receivable, net of discounts as restated at June 30, 2017	$ 6,582,663
Liabilities:	
Deferred gain on home sales as previously stated at June 30, 2017	$ 798,067
Adjustment	189,132
Deferred gain on home sales as restated at June 30, 2017	$ 987,199
Net deficit:	
Net deficit as previously stated June 30, 2017	$(2,297,182)
Adjustment	1,541,433
Net deficit as restated at June 30, 2017	$ (755,749)

NOTE 4 - 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 3.48% and 7.93% based upon rates published by Freddie Mac at the origination date for each mortgage. 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 2018 was $250,269. The discount is accreted to income over the life of the note. The amount of discount accreted to income in 2018 was $299,282. Mortgage loans receivable at June 30, 2018 consist of the following:

Mortgage loans receivable	$ 11,054,430
Less: mortgage discount	(4,338,901)
	$ 6,715,529

NOTE 5 - INVENTORIES

Inventories consist of the following components at June 30, 2018:

Homes under construction or renovation	$ 661,860
Developed lots available for construction	137,045
ReStore inventory	221,652
	$1,020,557

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018:

Equipment-contruction	$ 7,064
Equipment-office	61,200
ReStore leasehold improvements	880,320
Vehicles	76,541
Leashold improvements	21,488
	1,046,613
Accumulated depreciation and amortization	(419,769)
	$ 626,844

Depreciation and amortization expense for the year ended June 30, 2018 $96,645.

NOTE 7 - 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 percent 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, 2018 was $63,811. At June 30, 2018, these notes payable are included in the statement of financial position at discounted values of approximately $52,638, which represents the present value of the remaining monthly payments at the statement of financial position date. Interest expense imputed on these notes for the year ended June 30, 2018 payable was $3,707.

NOTE 7 - LOANS, LINES OF CREDIT AND COMMITMENTS (Continued)

Notes Payable (Continued)

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 requires monthly installments of $4,655 and charges interest at 4.4%. The loan matures in 2021. The principal outstanding on this note payable was $177,145 at June 30, 2018.

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 C). 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 $122,373 at June 30, 2018.

Secured Borrowing—Nonsale Transfer of Mortgage Loans Receivable

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 (Note D). As of June 30, 2018, Habitat had transferred fifty-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 and included in notes payable in the accompanying statement of financial position. As of June 30, 2018, total recourse mortgage loans receivable transferred have a face and present value of $8,797,038 and $7,240,917, respectively.

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

	Note A	**Note B**	**Note C**	**Note D**	**Total**
2019	$ 8,042	$ 49,068	$ 51,770	$ 244,864	$ 353,744
2020	9,336	51,271	54,473	248,889	363,969
2021	9,961	53,573	16,130	252,984	332,648
2022	10,628	23,233	-	257,144	291,005
2023	11,340	-	-	261,376	272,716
Thereafter	3,331	-	-	5,975,660	5,978,991
	$ 52,638	$ 177,145	$ 122,373	$ 7,240,917	$7,593,073

NOTE 7 - <u>LOANS, LINES OF CREDIT AND COMMITMENTS</u> (Continued)

<u>Lines of Credit</u>

Habitat has a $150,000 line of credit with Sandy Spring Bank. The line of credit bears interest at 1% under the Prime Index (5.00% at June 30, 2018). Interest only payments are due on the first of each month with principal and accrued interest due on November 1st, annually, on which date the line of credit is renewable. The outstanding balance on this line of credit at June 30, 2018 was $150,000

During 2016, Habitat executed a $500,000 line of credit with Old Line Bank. The line of credit bears interest at 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. The line of credit was renewed through April 30, 2020. The outstanding balance on this line of credit at June 30, 2018 was $241,992

<u>Lease Commitments</u>

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 in 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.

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 in 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. Effective July 1, 2018, the lease was amended to grant Habitat a lease abatement of $60,000 for a 2 year period. In addition, the amendment extended the lease for one additional year, at the same rate as year 10. The lease as amended expires July 2026.

NOTE 7 - LOANS, LINES OF CREDIT AND COMMITMENTS (Continued)

Lease Commitments (Continued)

In February 2016, Habitat entered into a lease for office space in Silver Spring, Maryland. The lease commenced in 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. The rent abatement is recognized as an adjustment to rent expense on a straight-line basis over the lease term.

Future minimum payments required under the lease are as follows:

Year ending June 30:

2019	$ 568,878
2020	583,841
2021	629,191
2022	644,926
2023	661,034
Thereafter	1,854,527
	$ 4,942,397

Total rent expense for the years ended June 30, 2018 was $548,653.

NOTE 8 - 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 year ended June 30, 2018 totaled $12,829.

NOTE 9 - LITIGATION

Habitat is the defendant in a hiring discrimination lawsuit. 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 this lawsuit.