HABITAT FOR HUMANITY METRO MARYLAND, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

Years Ended June 30, 2022 and 2021

DELEON & STANG
Strategic Insights. Practical Advice.

HABITAT FOR HUMANITY METRO MARYLAND, INC.

Table of Contents

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. 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. ("HFHMM").

In 2006, HFHMM 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 in Rockville, Maryland and one in Silver Spring, Maryland.

Overview

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 levels for many jobs have remained the same – making the dream of homeownership almost impossible for low-income families. In a spirit of collaboration and fellowship, HFHMM works with individuals, institutions, faith organizations, businesses, and the HFHMM families themselves to build and rehabilitate decent and energy efficient affordable housing for those living in substandard conditions in our community.

Habitat's unique homeownership model and programs provide a solution to this problem by offering lower income individuals the opportunity to purchase their own affordable home or preserve their existing affordable home.

Our mission is to build strength, stability, self-reliance, and affordable housing 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. HFHMM is about changing lives, one home at a time.

Strategic Planning

Community Impact

For the last 40 years, HFHMM has constructed or rehabilitated 102 homes, and completed 653 home preservation projects. We have also issued over $12 Million in zero-interest mortgages, spent over $20 Million in the local community, and helped over 1,500 people achieve the strength, stability, self-reliance they need to build a better life for themselves and their families.

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 is an organization that inspires action to create affordable housing opportunities for hard working, lower income families. 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. In addition, HFHMM homeowners pay taxes and are more likely to vote. As a result of an affordable mortgage, 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.

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 its inception in 1982, HFHMM has served 582 families and completed 755 projects through a combination of new construction, neighborhood revitalization, weatherization, accessibility modification, and minor or critical home repairs.

From an organizational and financial reporting perspective, HFHMM is a nonprofit corporation that follows accounting principles generally accepted in the United States (GAAP).

- HFHMM operates under a unique business model. In addition to its retail operation, new home construction, and home preservation initiatives, HFHMM acts as the mortgage servicer and lends money to homebuyers at a below market interest rate (0%). HFHMM records the loan receivable not at its face value, but net of the mortgage discounts using interest rates published by Freddie Mac on the date the loan closes. Other non-cash transactions that impact HFHMM's financial reporting represent amortization of deferred gains on home sales, depreciation 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, 2022:

- The change in net assets was $1,572,285.
- As of June 30, 2022, mortgage loans receivable, net of discounts included in the statements of financial position were $1,542,855. These mortgage loans receivable have gross or face values of $2,417,104. This compares to notes payable net of discounts of $743,211. These notes payable have gross or face values of $885,079.
- Total combined ReStore sales for the year ending June 30, 2022, were $2,311,382. Sales for the year ended June 30, 2022 increased as the impacts of the COVID-19 pandemic have decreased.

HFHMM also retains an equity interest in many of the homes sold to families. Presently, if the home is sold by the homeowner in years 1 through 5, then HFHMM retains 100% equity. HFHMM's equity interest is reduced by 3% in each succeeding year until HFHMM's equity reaches 25%.

Organizational Data, Statistics, and Financial Reporting (Continued)

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, 2022, HFHMM had assigned 6 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. During the year ended June 30, 2022, one of our banks relieved HFHMM of its guarantee of 14 loans and HFHMM reflected this forgiveness in its change in net assets. 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 101 mortgage loans with its homebuyers, of which 27 are still held by Habitat as of June 30, 2022. We have had only one mortgage foreclosure in our history. Mortgage loans receivables, net, at June 30, 2022 was $1,542,855 (see Note 4).

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Metro Maryland, Inc.
Silver Spring, Maryland

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity Metro Maryland, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Metro Maryland, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity Metro Maryland, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Metro Maryland, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Gaithersburg, Maryland
December 19, 2022

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 1,757,575	$ 1,318,854
Investments	-	20,711
Grants, contributions and contracts receivable	88,194	336,095
Mortgage loans receivable, net of discounts of $874,249 and $1,856,363, respectively	1,542,855	3,108,917
Inventories	1,946,627	1,797,671
Property and equipment, net of accumulated depreciation of $840,425 and $734,858, respectively	296,096	397,663
Other assets	102,494	107,261
Total Assets	$ 5,733,841	$ 7,087,172
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 276,865	$ 518,661
Homeowner escrow deposits	816	-
Lines of credit	204,800	507,637
Deferred rent	504,431	621,542
Notes payable and mortgage note assignments, net of discounts of $143,349 and $593,488	1,446,150	3,710,838
Total liabilities	2,433,062	5,358,678
Net assets:		
Net assets, without donor restrictions	2,156,806	1,000,544
Net assets, with donor restrictions	1,143,973	727,950
Total net assets	3,300,779	1,728,494
Total Liabilities and Net Assets	$ 5,733,841	$ 7,087,172

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2022 and 2021

	2022	2021
Net assets without donor restrictions		
Revenue and support:		
Contributions, grants and contracts	$ 1,579,066	$ 1,644,535
Forgiveness of paycheck protection program loan	535,200	-
Home sales	1,399,745	-
ReStore sales	2,311,382	2,164,140
Special events	527,236	442,337
In-kind contributions	20,000	33,598
Imputed mortgage interest income	109,948	152,225
Gain on mortgages	677,824	1,203,991
Other revenue	891	85,413
Other interest income	276	411
Net assets released from restriction	24,950	130,988
Total revenue and support without donor restrictions	7,186,518	5,857,638
Expenses:		
Program expenses	5,233,752	3,341,617
Supporting services	796,504	881,705
Total expenses	6,030,256	4,223,322
Change in net assets without donor restrictions	1,156,262	1,634,316
Net assets with donor restrictions		
Contributions and grants	440,973	791,392
Net assets released from restriction	(24,950)	(130,988)
Change in net assets with donor restrictions	416,023	660,404
Change in net assets	1,572,285	2,294,720
Net assets (deficit), beginning of year	1,728,494	(1,468,183)
Adoption of accounting standard cummulative adjustment	-	901,957
Adjusted net assets (deficit), beginning of year	1,728,494	(566,226)
Net assets, end of year	$ 3,300,779	$ 1,728,494

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2022 and 2021

	2022							
	Program Expenses				Supporting Services			
	Affordable Residential Housing	ReStore	Grant to Habitat for Humanity, International	Total Program Expenses	Fundraising	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	$ 579,693	$ 677,231	$ -	$ 1,256,924	$ 330,670	$ 10,994	$ 341,664	$ 1,598,588
Cost of home sales	1,485,858	-	-	1,485,858	-	-	-	1,485,858
Rent	70,899	405,091	-	475,990	34,171	34,103	68,274	544,264
Mortgage subsidies	509,951	-	-	509,951	-	-	-	509,951
Critical repair	275,504	-	-	275,504	-	-	-	275,504
Home weatherization	175,551	-	-	175,551	-	-	-	175,551
Payroll taxes	45,995	60,713	-	106,708	27,496	6,298	33,794	140,502
Printing and publication	4,777	1,327	-	6,104	115,601	141	115,742	121,846
Professional expenses	1,890	15,300	-	17,190	15,000	85,040	100,040	117,230
Depreciation and amortization	17,794	84,038	-	101,832	2,667	1,068	3,735	105,567
Rent CAM	-	100,355	-	100,355	-	-	-	100,355
Equipment	2,236	93,140	-	95,376	621	-	621	95,997
Health benefits	23,453	48,031	-	71,484	9,832	4,056	13,888	85,372
Insurance	37,070	13,292	-	50,362	18,712	11,472	30,184	80,546
Equipment maintenance	9,756	41,336	-	51,092	9,756	10,004	19,760	70,852
Supplies	24,906	14,911	-	39,817	15,124	12,259	27,383	67,200
Bank fees	-	55,503	-	55,503	-	2,699	2,699	58,202
Utilities	6,609	43,648	-	50,257	3,305	3,305	6,610	56,867
Miscellaneous	41,145	10,496	-	51,641	-	1,696	1,696	53,337
Real estate taxes	-	51,210	-	51,210	-	-	-	51,210
Loan interest	35,623	5,519	-	41,142	-	-	-	41,142
Facility maintenance	491	31,635	-	32,126	147	147	294	32,420
Team building	25,741	-	-	25,741	1,250	-	1,250	26,991
Construction	24,160	-	-	24,160	-	-	-	24,160
Advertising	-	21,997	-	21,997	-	-	-	21,997
Inventory pickup	-	20,674	-	20,674	1,120	-	1,120	21,794
Conference, convention	5,732	87	-	5,819	676	7,208	7,884	13,703
Retirement plan contributions	4,180	1,612	-	5,792	4,736	648	5,384	11,176
Volunteers	8,464	-	-	8,464	-	-	-	8,464
Payroll processing	2,735	2,959	-	5,694	1,362	1,362	2,724	8,418
Accounting fees	-	-	-	-	-	8,250	8,250	8,250
HFHI tithe expense	-	-	6,000	6,000	-	-	-	6,000
Travel	4,438	-	-	4,438	259	-	259	4,697
Postage and delivery	2,868	-	-	2,868	983	276	1,259	4,127
Dues and fees	-	128	-	128	-	1,990	1,990	2,118
	$ 3,427,519	$ 1,800,233	$ 6,000	$ 5,233,752	$ 593,488	$ 203,016	$ 796,504	$ 6,030,256

(Continued)

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
For the Years Ended June 30, 2022 and 2021

	2021							
	Program Expenses				Supporting Services			
	Affordable Residential Housing	ReStore	Grant to Habitat for Humanity, International	Total Program Expenses	Fundraising	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	$ 495,050	$ 672,290	$ -	$ 1,167,340	$ 350,790	$ 150,530	$ 501,320	$ 1,668,660
Critical repair	594,525	-	-	594,525	-	-	-	594,525
Rent	62,836	458,958	-	521,794	31,109	31,109	62,218	584,012
Home weatherization	181,971	-	-	181,971	-	-	-	181,971
Payroll taxes	38,310	62,883	-	101,193	31,301	7,116	38,417	139,610
Depreciation and amortization	18,621	88,238	-	106,859	2,897	1,157	4,054	110,913
Professional expenses	11,751	11,600	-	23,351	39,917	46,213	86,130	109,481
Rent CAM	-	89,898	-	89,898	-	-	-	89,898
Health benefits	11,208	55,164	-	66,372	11,505	7,389	18,894	85,266
Loan interest	78,731	3,397	-	82,128	-	-	-	82,128
Utilities	9,129	43,894	-	53,023	3,877	3,877	7,754	60,777
Equipment maintenance	9,040	32,917	-	41,957	9,040	9,040	18,080	60,037
Supplies	17,202	13,247	-	30,449	18,296	8,246	26,542	56,991
Printing and publication	1,145	388	-	1,533	52,833	-	52,833	54,366
Real estate taxes	-	48,356	-	48,356	-	-	-	48,356
Insurance	-	24,561	-	24,561	10,658	10,732	21,390	45,951
Bank fees	-	41,853	-	41,853	-	2,874	2,874	44,727
Miscellaneous	39,214	4,967	-	44,181	-	368	368	44,549
Facility maintenance	-	34,251	-	34,251	-	240	240	34,491
Accounting fees	-	-	-	-	-	17,964	17,964	17,964
Inventory pickup	-	15,579	-	15,579	-	-	-	15,579
Equipment	-	14,787	-	14,787	-	-	-	14,787
Retirement plan contributions	4,247	3,176	-	7,423	4,017	1,904	5,921	13,344
Advertising	-	12,989	-	12,989	-	-	-	12,989
Construction	11,649	-	-	11,649	-	-	-	11,649
Team building	4,297	-	-	4,297	6,156	-	6,156	10,453
HFHI tithe expense	-	-	8,500	8,500	-	-	-	8,500
Postage and delivery	2,561	-	-	2,561	5,170	260	5,430	7,991
Payroll processing	1,161	2,322	-	3,483	1,161	1,161	2,322	5,805
Volunteers	3,147	-	-	3,147	-	-	-	3,147
Dues and fees	-	170	-	170	-	2,746	2,746	2,916
Travel	988	-	-	988	518	-	518	1,506
Conference, convention	438	11	-	449	-	(466)	(466)	(17)
	$ 1,597,221	$ 1,735,896	$ 8,500	$ 3,341,617	$ 579,245	$ 302,460	$ 881,705	$ 4,223,322

See Accompanying Notes to the Financial Statements

HABITAT FOR HUMANITY METRO MARYLAND, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	$ 1,572,285	$ 2,294,720
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	105,567	110,913
Forgiveness of paycheck protection program loan	(535,200)	-
Amortization of discount on notes payable	35,623	53,049
Accretion of discount on mortgage loans receivable, net	(109,948)	(152,225)
Gain on mortgages	(677,824)	(1,203,991)
Mortgage subsidies-mortgage discount on homes sold	509,951	-
Donated investments	-	(20,348)
Unrealized gain on investments	-	(363)
(Increase) decrease in operating assets:		
Grants and contracts receivable	247,901	(296,255)
Inventories	(148,956)	(1,097,166)
Other assets	4,767	(42,678)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(241,796)	310,052
Homeowner escrow deposits	816	-
Deferred rent	(117,111)	(101,245)
Net cash provided by (used in) operating activities	646,075	(145,537)
Cash Flows From Investing Activities:		
Proceeds from sale of investments	20,711	-
Repayments of of mortgage loans, net of issuance	(98,139)	245,123
Purchases of property and equipment	(4,000)	(8,804)
Net cash (used in) provided by investing activities	(81,428)	236,319
Cash Flows From Financing Activities:		
Proceeds from lines of credit	795,170	330,037
Repayment of lines of credit	(1,098,007)	(250,000)
Proceeds from notes payable, net of repayments	176,911	115,151
Net cash (used in) provided by financing activities	(125,926)	195,188
Net increase in cash and cash equivalents	438,721	285,970
Cash and cash equivalents at beginning of year	1,318,854	1,032,884
Cash and cash equivalents at end of year	$ 1,757,575	$ 1,318,854
Supplemental Cash Flow Information:		
Cash paid for interest	$ 5,519	$ 29,079

NOTE 1 - ORGANIZATION

Habitat for Humanity of Montgomery County Maryland, Inc. (Habitat or Organization) 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:

Net assets without donor restriction – This category is used to record activity that has not been restricted by a donor or funding source.

Net assets with donor restriction – 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 net assets with donor restriction to net assets without donor restriction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). Habitat adopted the provisions of this new standard for the year ended June 30, 2022. The ASU enhances certain disclosure requirements related to contributed nonfinancial assets. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 (ASC 606) "Revenue from Contracts with Customers." ASC Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605 "Revenue Recognition" (ASC 605), and requires entities to recognize revenue when control of promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

Habitat adopted this standard on July 1, 2020, using the modified retrospective method through a cumulative effect adjustment to beginning net assets without donor restrictions and deferred gain on homes sales in the amount of $901,957 for the year ended June 30, 2021.

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 exceed the Federal Deposit Insurance Corporation limits at various times throughout the fiscal year.

Grants, Contributions 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 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.

NOTE 2 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Investments</u>

Investments in marketable securities with readily determinable fair values are reported at their fair values in the accompanying statements of financial position. Donated securities are recorded at the fair value on the date of the gift. Investment income or loss is reflected in the accompanying statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law. Unrealized gains and losses are included in the statements of activities as a component of other revenue.

Equity and fixed income securities are exposed to various risks such as market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

The fair values of marketable securities are determined by utilizing quoted market prices on active markets (Level 1 inputs) for identical securities.

The fair value of investments at June 30, 2021 were $20,711. There were no investments held at June 30, 2022.

<u>Inventories</u>

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 are capitalized during the construction period. ReStore inventory is carried at fair value and estimated using historical turnover in lieu of a physical count.

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NOTE 2 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Mortgage Loans Receivable</u>

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), 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, 2022 and 2021, no amounts were more than 90 days delinquent.

<u>Property and Equipment</u>

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.

<u>In-Kind Contributions</u>

Habitat receives donations of land, products, and services from individual and corporate donors. As further discussed in Note 3, 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.

NOTE 2 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Revenue Recognition - Exchange Transactions</u>

Program revenues are recognized when control of the promised services is transferred to the Organization's customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. To do this, the Organization performs the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Organization satisfies a performance obligation.

Revenue Types:

Sale of Homes – The Organization builds and sells houses to low-income individuals. Such revenues are recognized at the date of closing for the house as this is the point in time the Organization has determined to satisfy their performance obligation.

ReStore – The Organization sells various donated and purchased goods to individuals through their ReStore location. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation.

Sale of Mortgages – The Organization sells existing mortgages to a third-party bank. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation. This excludes non-sale mortgage transfers described further in Note 7.

Significant Judgments:

Determining whether variable consideration (if applicable) should be reflected in the contract's transaction price may require judgment as to the probability that a significant reversal of such consideration will not occur when the variable consideration is resolved.

Practical Expedients:

The Organization has applied certain practical expedients in its adoption and application of ASC 606, as follows:

The Organization does not evaluate a contract for a significant financing component if payment is expected to be received within one year or less from the transfer of the promised services to the client.

The Organization generally expenses costs incurred to obtain a contract when the amortization period would have been one year or less.

NOTE 2 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Revenue Recognition - Exchange Transactions</u> (Continued)

Sales and Use Tax:

At times, the Company collects and remits sales and use taxes. These taxes are reported on a net basis in the accompanying statements of activities, and therefore do not impact reported amounts of revenue and expenses.

<u>Other Support and Revenue</u>

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions that are expected to be received in future years are recorded at their present value. Contributions are recorded as unrestricted unless they are subject to donor restrictions or are required to be used or expected to be received in future years.

Grant income that does not meet the criteria of an exchange transaction is recognized under the criteria described above for contributions. Grantors may, at their discretion, amend the grant and contract amounts. In addition, reimbursement for expenses or return of funds, or both, may be requested as a result of noncompliance by the Organization with the terms of the grants and contracts. The Organization records such amendments, reimbursement, and return of funds as an adjustment to revenue in the year of the amendment. No such changes occurred during the years ended June 30, 2022 and 2021.

<u>Allocation of Costs</u>

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 to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and related costs are allocated based upon the proportionate share of hours worked amongst each function. All other costs are charged directly to the appropriate functional category.

<u>Advertising</u>

Habitat expenses the costs of advertising as they are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 has determined that there are no uncertain tax positions required to be disclosed under the Income Taxes Topic of the FASB Accounting Standards Codification.

Habitat's tax returns are subject to audit for three years after filling, hence Habitat's returns for tax years 2019 onwards are open to tax examination.

Subsequent Events

Management has evaluated the financial statements for subsequent events requiring accrual or disclosure through December 19, 2022, which is the date the financial statements were available to be issued.

NOTE 3 - In-Kind Contributions

During the years ended June 30, 2022 and 2021 Habitat received In-kind contributions of various construction materials. All In-kind contributions were utilized by Habitat's affordable residential housing program. Donated materials were provided without donor restriction. Donated construction materials are valued using retail prices for similar items. In-kind contributions for the years ended June 30, 2022 and 2021 were as follows:

	2022	2021
Program or supporting service	**Donated construction materials**	**Donated construction materials**
Affordable residential housing program	$ 20,000	$ 33,598
	$ 20,000	$ 33,598

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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. Discounts charged to program expenses for the year ended June 30, 2022 was $509,951. No discount was charged to program expense in 2021. The discount is accreted to income over the life of the note. The amount of discount accreted to income in 2022 and 2021 was $109,948 and $152,225, respectively. As further described in Note 7, Habitat received relief from certain recourse provisions related to the previous transfer of loans receivable. This resulted in a reduction of net mortgage loans receivable totaling $1,581,897 and $3,860,382 for the years ending June 30, 2022 and 2021, respectively. Mortgage loans receivable at consist of the following at June 30:

	2022	2021
Mortgage loans receivable	$ 2,417,104	$ 4,965,280
Less: mortgage discount	(874,249)	(1,856,363)
	$ 1,542,855	$ 3,108,917

NOTE 5 - INVENTORIES

Inventories consist of the following components at June 30, 2022 and 2021:

	2022	2021
Homes under construction or renovation	$ 1,495,319	$ 1,357,283
Developed lots available for construction	86,271	121,019
ReStore inventory	365,037	319,369
	$ 1,946,627	$ 1,797,671

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NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2022 and 2021:

	2022	2021
Equipment-construction	$ 7,064	$ 7,064
Equipment-office	104,444	100,444
ReStore leasehold improvements	886,021	886,021
Vehicles	117,504	117,504
Leasehold improvements	21,488	21,488
	1,136,521	1,132,521
Accumulated depreciation and amortization	(840,425)	(734,858)
	$ 296,096	$ 397,663

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was $105,567 and $110,913, respectively.

NOTE 7 - LOANS AND LINES OF CREDIT

Notes Payable

On January 6, 2003, Habitat entered into an agreement with OBA Federal Savings Bank (First National Bank) 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, 2022 and 2021 was $12,762 and $25,762, respectively. At June 30, 2022 and 2021, these notes payable are included in the statements of financial position at discounted values of approximately $11,737 and $23,364, respectively, 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, 2022 payable was $1,371 and $2,496, respectively.

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. The note requires monthly installments of $4,655 and charges interest at 4.4%. In May 2020, Habitat executed a three month payment deferral for May, June and July 2020. The loan matured in 2022. There was no principal balance outstanding at June 30, 2022. The principal outstanding on this note payable at June 30, 2021 was $28,250.

NOTE 7 - LOANS AND LINES OF CREDIT (Continued)

Notes Payable (Continued)

In January 2019, Habitat executed two construction notes payable with Old Line Bank (WesBanco Bank). The notes provide borrowing up to $198,400 and $208,000, respectively. The notes require interest only payments at 6%. The notes mature July 2021. At June 30, 2020 the principal balance outstanding on these notes were $48,524. These notes were paid in full as of June 30, 2021.

In September 2019, Habitat executed a note payable in the amount of $45,623 to fund the purchase of a truck. The note charges zero percent interest and requires payments monthly payments of $631 for a period of 6 years. At June 30, 2022 and 2021 the principal balance outstanding on this note payable was $23,973 and $31,544, respectively.

In November 2020, Habitat executed a temporary loan with the City of Takoma Park. The loan was used to fund the purchase and rehabilitation of two residential properties in Takoma Park. The loan will be forgiven upon sale of the related properties. The loan charges zero interest. The outstanding balance on this loan at both June 30, 2022 and 2021 was $200,000.

In June 2020, Habitat received a $150,000 Economic Injury Disaster Loan ("note") through the Small Business Administration. The note requires monthly payments of $641 which commence twelve months from the execution of the note. The note matures in 2050 and charges interest at 2.75%. At June 30, 2022 and 2021, the principal balance outstanding was $148,966 and $149,603, respectively.

In April 2020, Habitat received a $267,600 Paycheck Protection Program Loan (note) through the Small Business Administration. Under the terms of this note, all or a portion of the loan, including accrued interest, may be forgiven if proceeds are used for qualifying expenses and if certain staffing levels are maintained. Any unforgiven amounts are payable over a twenty four month period beginning at the time any unforgiven amounts are determined by the Small Business Administration. Interest on the unforgiven balance accrues at 1% annually. This loan was forgiven in full in July 2021 and is included in the accompanying statement of activities for the year ended June 30, 2022.

In February 2021, Habitat received a second Paycheck Protection Program Loan in the amount of $267,600 through the Small Business Administration under the same terms as the first. The loan was forgiven in full in March 2022 and is included in the accompanying statement of activities for the year ended June 30, 2022.

NOTE 7 - **LOANS AND LINES OF CREDIT** (Continued)

Notes Payable (Continued)

In August 2021, Habitat received a construction loan with the National Housing Trust which allows for borrowings up to $490,000 to facilitate the renovation of real property in Takoma Park, Maryland. The loan charges interest of 3% during the course of construction and is payable in full upon completion of the related construction project. The outstanding balance on this loan at June 30, 2022 was $330,000.

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. As of June 30, 2020, Habitat had transferred 61 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.

In August 2020, Habitat amended 41 and mortgage assignments. The assignment agreements as amended removed recourse provisions from existing assigned mortgages after a five year period if mortgages are in good standing. At the time the recourse provisions expire, Habitat no longer retains full responsibility for defaults or delinquencies. Accordingly, the transfers were accounted for as sold loans and related assets and liabilities are extinguished. The amendments resulted in a reduction of net mortgage loans receivable by $3,860,382, a reduction of notes payable by $5,064,371 and a related gain of $1,203,991.

In February 2022, Habitat amended 13 more mortgage assignments, removing the recourse provisions from existing assigned mortgages after a five year period if mortgages are in good standing. the transfers were accounted for as sold loans and related assets and liabilities are extinguished. The amendments resulted in a reduction of net mortgage loans receivable by $1,264,198, a reduction of notes payable by $1,942,022 and a related gain of $677,824.

As of June 30, 2022, total recourse mortgage loans receivable transferred have a face and present value of $3,333,967 and $2,742,876, respectively. As of June 30, 2021, total recourse mortgage loans receivable transferred have a face and present value of $9,599,040 and $7,972,328, respectively.

NOTE 7 - LOANS AND LINES OF CREDIT (Continued)

Future principal payments of notes payable and transferred mortgage loans net of discounts are as follows:

Years ending June 30:		
2023	$	579,733
2024		40,831
2025		41,009
2026		35,288
2027		34,621
Thereafter		714,668
	$	1,446,150

Lines of Credit

Habitat has a $400,000 line of credit with Sandy Spring Bank. The line of credit bears interest at 1% under the Prime Index (3.75% at June 30, 2022). 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, 2022 and 2021 was $204,800 and $330,037, respectively.

During 2016, Habitat executed a $400,000 line of credit with Old Line Bank (WesBanco Bank). The line of credit bears interest at the greater of 1% above the Prime Index (5.25% at June 30, 2021) or 4.5%. Interest-only payments are due each month. The line of credit renews annually. There was no outstanding balance on this line of credit at June 30, 2022. The outstanding balance on this line of credit at June 30, 2021 was $177,600.

Habitat has a $100,000 line of credit with Eagle Bank. The line of credit bears interest at 1.5% above the Prime index with a floor of 5.5%. 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. There was no outstanding balance on this line of credit at both June 30, 2022 and 2021.

In September 2019, Habitat executed a line of credit with Sandy Spring Bank in the amount of $1,500,000. The line of credit bears interest at the Prime index. Interest payments on outstanding borrowings are due monthly. The line of credit renews annually. There was no outstanding balance at June 30, 2022 and 2021.

NOTE 7 - LOANS AND LINES OF CREDIT (Continued)

Lines of Credit (Continued)

During 2022, Habitat executed a line of credit with Sandy Spring Bank in the amount of $500,000. The line of credit bears interest at the Prime index. Interest payments on outstanding borrowings are due monthly. The line of credit renews annually. The line of credit is restricted for use in connection with Habitat's weatherization program. There was no outstanding balance at June 30, 2022.

NOTE 8 - 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 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. Habitat executed a lease amendment to reduce and defer rent payments for July, August and September 2020. The deferred amounts were payable over a six month period commencing April 1, 2021.

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. Habitat executed a lease amendment to defer rent payments for May and June 2020. The deferred amounts were payable over a twelve month period commencing January 1, 2021.

NOTE 8 - 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. Habitat executed a lease amendment to defer rent payments for May and June 2020. The deferred amounts were payable over a twenty four month period commencing July 2020.

Future minimum payments required under these leases are as follows:

Years ending June 30:	
2023	$ 660,527
2024	677,033
2025	453,588
2026	443,080
2027	677,033
	$ 2,911,261

Total rent expense for the years ended June 30, 2022 and 2021 was $544,264 and $584,012, 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 year ended June 30, 2022 and 2021 totaled $11,176 and $13,344, respectively.

NOTE 10 - LIQUIDITY AND FUNDS AVAILIBLE

The following table reflects Habitat's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditure within one year, if any. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, funds that are purpose or time restricted beyond one year, endowments and accumulated earnings net of appropriations within one year and board designated endowments. If present, board designations could be drawn upon if the Board of Directors approves that action.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2022 and 2021 are as follows:

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 1,757,575	$ 1,318,854
Investments	-	20,711
Grants and contracts receivable	88,194	336,095
Gross mortgage loans receivable due in one year	138,251	521,693
Subtotal	1,984,020	2,197,353
Less those unavailable for general expenditure within one year, due to:		
Mortgage assignment obligations	(93,374)	(93,700)
Net assets with donor restrictions	(1,143,973)	(727,950)
Subtotal	(1,237,347)	(821,650)
Financial assets available to meet cash needs for general expenditures within on year:	$ 746,673	$ 1,375,703

Habitat has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs Habitat has committed lines of credit in the aggregate amount of $900,000.