AU-C §260 Letter

March 13, 2024

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

We have audited the consolidated financial statements of Habitat for Humanity Metro Maryland, Inc. and Subsidiary (Habitat) for the year ended June 30, 2023, and have issued our report thereon dated December 11, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 25, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Habitat are described in Note 2 to the consolidated financial statements. As described in Note 2 to the consolidated financial statements, the Organization changed accounting policies related to lease accounting by adopting FASB Accounting Standards Update 2016-02, *Leases (Topic 842),* in fiscal year 2023. Accordingly, the accounting change has been applied effective July 1, 2022. We noted no transactions entered into by Habitat during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

Management has determined all receivables are collectible and no allowance for doubtful accounts is required as of June 30, 2023.

Management's estimate of depreciation and amortization expense, which is based on management's estimate of the useful lives of capital assets.

The weighted-average discount rates applied to the total cost of the operating leases.

Management's estimate of in-kind contributions is based on the market value of similar goods and services.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Management has estimated the allocation of expenses to programs and other activities. Expenses are primarily recorded as direct charges, while other expenses that are common to several functions are allocated based on either time spent or management's historical knowledge of the nature and function of the expense.

Management's estimates of (1) present values of future repayments of interest-free loans payable and mortgage notes receivable, which are based on management's estimates of effective loan and note terms and market interest rates for identical loans and credit risks and (2) fair value of donated goods (including yearend inventory) and services, which is based on management's experiential knowledge of the resale value of similar goods and the market price of similar services, respectively. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

We evaluated the key factors and assumptions used to determine the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain consolidated financial statement disclosures are particularly sensitive because of their significance to consolidated financial statement users. The most sensitive disclosure affecting the consolidated financial statements were:

The disclosure of Loans and Lines of Credit and Lease Commitments Notes 7 and 8 to the consolidated financial statements. These notes are particularly sensitive based on their impact regarding Habitat's future cash flows and Habitat's ability to obtain additional debt instruments to fund future home construction.

As disclosed in Note 10, Liquidity and Funds Available, financial assets available to meet cash needs for general expenditures within one year are $581,053 as of June 30, 2023.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Habitat's consolidated financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Habitat's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, *Government Auditing Standards*, and the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and Audit Committee of Habitat and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

DeLeon & Stang

DeLeon & Stang CPAs and Advisors
Frederick, Maryland

HABITAT FOR HUMANITY METRO MARYLAND, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
WITH
INDEPENDENT AUDITORS' REPORTS
FOR THE
Years Ended June 30, 2023 and 2022

DELEON & STANG
Strategic Insights. Practical Advice.

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY

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.

During fiscal year 2023, HFHMM established Randolph Road, LLC, a Maryland Limited Liability Company, wholly owned by HFHMM for the purpose of building 27 affordable homeownership units at the intersection of Randolph Road and Veirs Mill Road.

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.

Strategic Planning

Community Impact

For the last 40 years, HFHMM has constructed or rehabilitated 103 homes, and completed 770 home preservation projects. We have also issued over $13 Million in zero-interest mortgages, spent over $21 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.

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.

Organizational Data, Statistics, and Financial Reporting

Since its inception in 1982, HFHMM has served 670 families and completed 873 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. Historically, the result of those non-cash entries in a year with significant home sales results in the statement of activities reflecting significant losses.

Organizational Data, Statistics, and Financial Reporting (Continued)

A reader will notice that for the year ending June 30, 2023:

- The change in net assets was $505,932.
- As of June 30, 2023, mortgage loans receivable, net of discounts included in the statements of financial position were $1,473,153. These mortgage loans receivable have gross or face values of $2,278,517. This compares to notes payable net of discounts of $704,690. These notes payable have gross or face values of $834,407.
- Total combined ReStore sales for the year ending June 30, 2023 were $2,643,032.

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%.

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, 2023, HFHMM had assigned 60 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 26 are still held by Habitat as of June 30, 2023. We have had only one mortgage foreclosure in our history. Mortgage loans receivables, net, at June 30, 2023 was $1,473,153 (see Note 6).

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity Metro Maryland, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Metro Maryland, Inc. and Subsidiary as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Consolidated Financial Statements section of our report. We are required to be independent of Habitat for Humanity Metro Maryland, Inc. and Subsidiary 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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. and Subsidiary'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 consolidated 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. and Subsidiary'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023 on our consideration of Habitat for Humanity Metro Maryland, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat for Humanity Metro Maryland, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity Metro Maryland, Inc. and Subsidiary's internal control over financial reporting and compliance.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
December 11, 2023
March 13, 2024 with respect to Uniform Guidance requirements on pages 29-37

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 1,011,842	$ 1,757,575
Grants, contributions and contracts receivable	303,944	88,194
Mortgage loans receivable, net of discounts of $805,364 and $874,249, respectively	1,473,153	1,542,855
Inventories	3,621,979	1,946,627
Property and equipment, net of accumulated depreciation of $940,768 and $840,425, respectively	195,753	296,096
Operating lease - right of use asset	1,279,796	-
Other assets	73,439	102,494
Total Assets	$ 7,959,906	$ 5,733,841
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 487,050	$ 276,865
Homeowner escrow deposits	43,383	816
Lines of credit	430,089	204,800
Operating lease liability	1,660,946	-
Deferred rent	-	504,431
Notes payable and mortgage note assignments, net of discounts of $129,059 and $143,349	1,531,727	1,446,150
Total liabilities	4,153,195	2,433,062
Net assets:		
Net assets, without donor restrictions	3,029,322	2,156,806
Net assets, with donor restrictions	777,389	1,143,973
Total net assets	3,806,711	3,300,779
Total Liabilities and Net Assets	$ 7,959,906	$ 5,733,841

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2023 and 2022

	2023	2022
Net assets without donor restrictions		
Revenue and support:		
Contributions, grants and contracts	$ 2,492,641	$ 1,579,066
Forgiveness of paycheck protection program loan	-	535,200
Home sales	-	1,399,745
ReStore sales	2,643,032	2,311,382
Special events	520,384	527,236
In-kind contributions	22,396	20,000
Imputed mortgage interest income	68,885	109,948
Gain on mortgages	48,842	677,824
Other revenue	3,575	891
Other interest income	2,886	276
Net assets released from restriction	721,277	24,950
Total revenue and support without donor restrictions	6,523,918	7,186,518
Expenses:		
Program expenses	4,667,892	5,233,752
Supporting services	983,510	796,504
Total expenses	5,651,402	6,030,256
Change in net assets without donor restrictions	872,516	1,156,262
Net assets with donor restrictions		
Contributions and grants	354,693	440,973
Net assets released from restriction	(721,277)	(24,950)
Change in net assets with donor restrictions	(366,584)	416,023
Change in net assets	505,932	1,572,285
Net assets, beginning of year	3,300,779	1,728,494
Net assets, end of year	$ 3,806,711	$ 3,300,779

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2023 and 2022

	2023								
	Program Expenses					Supporting Services			
	Affordable Residential Housing	ReStore	Grant to Habitat for Humanity, International	Randolph Road	Total Program Expenses	Fundraising	Management and General	Total Supporting Services	Total Expenses
Salaries and wages	$ 674,193	$ 791,876	$ -	$ -	$ 1,466,069	$ 322,023	$ 112,242	$ 434,265	$ 1,900,334
Critical repair	1,358,325	-	-	-	1,358,325	-	-	-	1,358,325
Rent	61,774	425,014	-	-	486,788	30,887	30,916	61,803	548,591
Professional expenses	21,816	33,062	-	4,375	59,253	14,569	160,668	175,237	234,490
Payroll taxes	54,553	65,081	-	-	119,634	26,082	9,205	35,287	154,921
Rent CAM	-	121,472	-	-	121,472	-	-	-	121,472
Home weatherization	120,766	-	-	-	120,766	-	-	-	120,766
Health benefits	35,517	59,294	-	-	94,811	9,661	6,396	16,057	110,868
Insurance	60,224	11,586	-	-	71,810	22,776	12,586	35,362	107,172
Equipment maintenance	15,297	56,173	-	-	71,470	14,203	15,959	30,162	101,632
Depreciation and amortization	14,789	82,990	-	-	97,779	1,832	732	2,564	100,343
Equipment	2,285	93,565	-	-	95,850	635	-	635	96,485
Printing and publication	1,247	818	-	342	2,407	86,788	600	87,388	89,795
Real estate taxes	-	70,066	-	-	70,066	-	-	-	70,066
Utilities	7,393	52,127	-	-	59,520	3,697	3,697	7,394	66,914
Miscellaneous	37,352	18,627	-	-	55,979	-	10,559	10,559	66,538
Bank fees	-	55,365	-	1,728	57,093	-	2,301	2,301	59,394
Supplies	18,281	9,806	-	255	28,342	9,031	13,057	22,088	50,430
Facility maintenance	-	44,723	-	-	44,723	-	-	-	44,723
Construction	20,454	-	-	16,313	36,767	-	-	-	36,767
Advertising	-	34,331	-	-	34,331	-	-	-	34,331
Inventory pickup	-	27,544	-	-	27,544	4,527	-	4,527	32,071
Accounting fees	-	-	-	-	-	-	29,150	29,150	29,150
Conference, convention	1,347	793	-	8,178	10,318	330	11,165	11,495	21,813
Loan interest	20,505	-	-	-	20,505	-	-	-	20,505
Volunteers	14,583	-	-	-	14,583	-	-	-	14,583
Retirement plan contributions	4,451	2,859	-	-	7,310	4,712	532	5,244	12,554
Housing stipend	-	5,510	-	-	5,510	4,539	-	4,539	10,049
Team building	8,528	-	-	-	8,528	613	-	613	9,141
Travel	4,828	1,924	-	-	6,752	383	-	383	7,135
Payroll processing	1,330	2,902	-	-	4,232	1,330	1,330	2,660	6,892
HFHI tithe expense	-	-	6,000	-	6,000	-	-	-	6,000
Postage and delivery	2,633	204	-	-	2,837	1,018	433	1,451	4,288
Dues and fees	-	180	-	-	180	-	2,346	2,346	2,526
Vista intern	338	-	-	-	338	-	-	-	338
	$ 2,562,809	$ 2,067,892	$ 6,000	$ 31,191	$ 4,667,892	$ 559,636	$ 423,874	$ 983,510	$ 5,651,402

(Continued)

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
For the Years Ended June 30, 2023 and 2022

	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

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	$ 505,932	$ 1,572,285
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	100,343	105,567
Amortization of right of use asset	496,050	-
Forgiveness of paycheck protection program loan	-	(535,200)
Amortization of discount on notes payable	14,290	35,623
Accretion of discount on mortgage loans receivable, net	(68,885)	(109,948)
Gain on mortgages	(48,842)	(677,824)
Mortgage subsidies-mortgage discount on homes sold	-	509,951
(Increase) decrease in operating assets:		
Grants and contracts receivable	(215,750)	247,901
Inventories	(1,675,352)	(148,956)
Other assets	29,055	4,767
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	210,185	(241,796)
Homeowner escrow deposits	42,567	816
Deferred rent	-	(117,111)
Operating lease liability	(619,331)	-
Net cash (used in) provided by operating activities	(1,229,738)	646,075
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-	20,711
Payments received on mortgage loans, net of issuance	187,429	(98,139)
Purchases of property and equipment	-	(4,000)
Net cash provided by (used in) investing activities	187,429	(81,428)
Cash Flows From Financing Activities:		
Proceeds from lines of credit	225,289	795,170
Repayment of lines of credit	-	(1,098,007)
Proceeds from notes payable, net of repayments	71,287	176,911
Net cash provided by (used in) financing activities	296,576	(125,926)
Net (decrease) increase in cash and cash equivalents	(745,733)	438,721
Cash and cash equivalents at beginning of year	1,757,575	1,318,854
Cash and cash equivalents at end of year	$ 1,011,842	$ 1,757,575
Supplemental Cash Flow Information:		
Cash paid for interest	$ 6,215	$ 5,519

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.

During fiscal year 2023, the Organization established Randolph Road, LLC, a Limited Liability Company, wholly owned by the Organization for the purpose of building 27 affordable homeownership units at the intersection of Randolph Road and Veirs Mill Road.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Basis of Consolidation

The accounts of the Randolph Road, LLC (a Limited Liability Company) ("the Company") are consolidated in these financial statements. The Company is a wholly-owned subsidiary of Humanity Metro Maryland, Inc. All significant inter-company transactions are eliminated in consolidation. The entities are collectively referred to in the notes to the consolidated financial statements as "Habitat" or "the Organization", except where "Habitat" is used to contextually represent only the entity described in Note 1 above.

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

<u>Basis of Presentation</u>

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 consolidated statement of financial position, a consolidated statement of activities, and a consolidated 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. Net assets with donor restrictions at June 30, 2023 and 2022 were $777,389 and $1,143,973, respectively.

<u>Cash and Cash Equivalents</u>

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.

<u>Grants, Contributions and Contracts Receivable</u>

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

Investments

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 consolidated financial statements.

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

There were no investments held at either June 30, 2023 or 2022.

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 inventory 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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Loans Receivable

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the Habitat for Humanity International Accounting Manual, when a house is sold and title transferred to a homeowner, revenue is recorded for the house price and a mortgage loan receivable, discounted to the present value of cash payments to be received over the term of the note (see Note 3), 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 until HHFHMM reaches 25% which it maintains in perpetuity. 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, 2023 and 2022, no amounts were more than 90 days delinquent.

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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which changes the accounting for leases. While both lessees and lessors are affected by the new guidance, the effects on lessors is largely unchanged. Under the new guidance, there was a material impact on the consolidated statements of financial position, in the lessee will be required to recognize the following for all long-term leases: (1) a lease liability, which is the lessee's obligation to make lease payments measured on a discounted basis and (2) a right-of-use (ROU) asset, which represents the lessee's right to use (or control use of) a specified asset for the lease term. Habitat adopted this new standard effective July 1, 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

The Organization applies certain practical expedients in its adoption and application of ASC 842, as follows:

The Organization need not reassess whether any expired or existing contracts are or contain leases.

The Organization need not reassess the lease classification for any expired or existing leases.

The Organization need not reassess initial direct costs for any existing leases.

The Organization applies the risk free rate to discount future lease payments.

Habitat recorded a right of use asset and related operating lease liability in the consolidated statement of financial position in the amounts of $1,775,847 and $2,283,447 on July 1, 2022 in connection with the adoption of this standard.

In-Kind Contributions

Habitat receives donations of land, products, and services from individual and corporate donors. As further discussed in Note 5, these contributions are recorded at their estimated fair market value at their date of donation.

Contributions of services are recognized in the consolidated 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 consolidated financial statements as these contributions do not meet the requirements to be recorded as revenue and expense.

Revenue Recognition - Exchange Transactions

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - Exchange Transactions (Continued)

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 applies 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.

Sales and Use Tax:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Support and Revenue

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, 2023 and 2022.

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 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Randolph Road LLC is a limited liability company, with Habitat as its sole member. Accordingly, no provision has been made for federal income taxes on income recognized, because these taxes are the personal responsibility of the member.

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 2020 onwards are open to tax examination.

Reclassifications

Certain reclassifications have been made to the 2022 consolidated financial statements' presentation to correspond to the current year's format.

Subsequent Events

Management has evaluated the financial statements for subsequent events requiring accrual or disclosure through the date the financial statements were available to be issued, except as disclosed in Note 7.

NOTE 3 - INVENTORIES

Inventories consist of the following components at June 30, 2023 and 2022:

	2023	2022
Homes under construction or renovation	$ 2,349,560	$ 1,495,319
Developed lots available for construction	837,935	86,271
ReStore inventory	434,484	365,037
	$ 3,621,979	$ 1,946,627

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NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2023 and 2022:

	2023	2022
Equipment-construction	$ 7,064	$ 7,064
Equipment-office	104,444	104,444
ReStore leasehold improvements	886,021	886,021
Vehicles	117,504	117,504
Leasehold improvements	21,488	21,488
	1,136,521	1,136,521
Accumulated depreciation and amortization	(940,768)	(840,425)
	$ 195,753	$ 296,096

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 was $100,343 and $105,567, respectively.

NOTE 5 - IN-KIND CONTRIBUTIONS

During the years ended June 30, 2023 and 2022, Habitat received in-kind contributions of various goods and services. All in-kind contributions were utilized by Habitat's affordable residential housing program. All donated materials and services were provided without donor restriction. All in-kind contributions are valued using retail prices for similar items. In-kind contributions for the years ended June 30, 2023 and 2022 were as follows:

	2023	
	Revenue Recognized	Programs/Activities
Materials	$ 2,000	Affordable Residential Housing
Monetized in-kind	2,000	
Professional fees	20,396	Affordable Residential Housing, ReStore, Fundraising, Management and General
Utilized in-kind	20,396	
	$ 22,396	

NOTE 5 - IN-KIND CONTRIBUTIONS (Continued)

	2022	
	Revenue Recognized	Programs/Activities
Materials	$ 20,000	Affordable Residential Housing
Monetized in-kind	20,000	
	$ 20,000	

NOTE 6 - 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 1.53% and 1.79% 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. No mortgage loans were issued during the fiscal year 2023, accordingly, no discount was charged to program expense for the year ended June 30, 2023. Discounts charged to program expenses for the year ended June 30, 2022 was $509,951. The discount is accreted to income over the life of the note. The amount of discount accreted to income in 2023 and 2022 was $68,885 and $109,948, respectively. As further described in Note 8, 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 for the year ending June 30, 2022. Mortgage loans receivable at consist of the following at June 30:

	2023	2022
Mortgage loans receivable	$ 2,278,517	$ 2,417,104
Less: mortgage discount	(805,364)	(874,249)
	$ 1,473,153	$ 1,542,855

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, 2023 and 2022 was $713 and $12,762, respectively. At June 30, 2023 and 2022, these notes payable are included in the statements of financial position at discounted values of approximately $347 and $11,737, respectively, which represents the present value of the remaining monthly payments at the consolidated statements of financial position date. Interest expense imputed on these notes for the years ended June 30, 2023 and 2022 was $1,371 and $660, 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 required 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, paid off and then closed.

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, 2023 and 2022, the principal balance outstanding on this note payable was $16,403 and $23,973, 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, 2023 and 2022 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, 2023 and 2022, the principal balance outstanding was $147,043 and $148,966, respectively.

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

<u>Notes Payable</u> (Continued)

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 consolidated statements 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 also included in the accompanying consolidated statements of activities for the year ended June 30, 2022.

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, 2023 and 2022 was $462,940 and $330,000, respectively. This loan was paid in full as of December 1, 2023.

In November 2022, Randolph Road, LLC received a construction loan with Sandy Spring Bank which allows for borrowings up to $6,092,000 to facilitate the construction of real property in Montgomery County, Maryland. Habitat for Humanity Metro Maryland, Inc. is a guarantor of the loan. The loan charges interest during the course of construction and is payable in full upon completion of the related construction project. There were not outstanding borrowings on this loan at June 30, 2023.

<u>Secured Borrowing—Nonsale Transfer of Mortgage Loans Receivable</u>

Habitat transfers mortgage loans receivable to financial institutions in accordance with the Transfer and Servicing Topic of the FASB Accounting Standards Codification, under separate transfer and servicing agreements. As of June 30, 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 consolidated statements of financial position.

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

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

In August 2020, Habitat amended 41 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, 2023, total recourse mortgage loans receivable transferred have a face and present value of $834,407 and $704,690, respectively. As of June 30, 2022, total recourse mortgage loans receivable transferred have a face and present value of $872,317 and $731,225 respectively.

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

Years ending June 30:	
2024	$ 704,088
2025	41,009
2026	35,288
2027	34,621
2028	35,228
Thereafter	681,493
	$ 1,531,727

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, 2023). 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, 2023 and 2022 was $264,866 and $204,800, respectively.

NOTE 7 - LOANS AND LINES OF CREDIT (Continued)

Lines of Credit (Continued)

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 both June 30, 2023 and 2022, and the loan was closed.

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, 2023 and 2022.

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. The outstanding balance on this line of credit at June 30, 2023 was $165,223. There was no outstanding balance at June 30, 2022.

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 both June 30, 2023 and 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.

NOTE 8 - **LEASE COMMITMENTS** (Continued)

In March 2014, Habitat entered into a lease for 15,000 square feet of retail space in Silver Spring, Maryland. The space will be used to facilitate a second ReStore location in Silver Spring, Maryland. The lease commenced 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 previous rate. 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.

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.

The consolidated statements of financial position as of June 30, 2023, presents an operating lease - ROU asset of $1,279,796 and operating lease liability of $1,660,946, removing the previously recorded deferred rent and deferred improvement allowance. Operating lease cost is recognized on a straight-line basis over the term of the lease. As of June 30, 2023, the remaining lease term was 3 years and 2 months, and the weighted-average discount rate applied was remaining lease term was 2.5%.

Future minimum payments required under these leases are as follows:

Years ending June 30:	
2024	$ 688,680
2025	550,803
2026	455,319
2027	24,477
	1,719,279
Less: imputed interest	(58,333)
	$ 1,660,946

NOTE 8 - LEASE COMMITMENTS (Continued)

Total rent expense for the years ended June 30, 2023 and 2022 was $548,591 and $544,264, 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, 2023 and 2022 totaled $12,554 and $11,176, respectively.

NOTE 10 - LIQUIDITY AND FUNDS AVAILIBLE

The following table reflects Habitat's financial assets as of June 30, 2023 and 2022, 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, 2023 and 2022 are as follows:

	2023	2022
Financial assets:		
Cash and cash equivalents	$ 1,011,842	$ 1,757,575
Grants and contracts receivable	303,944	88,194
Gross mortgage loans receivable due in one year	138,925	138,251
Subtotal	1,454,711	1,984,020
Less those unavailable for general expenditure within one year, due to:		
Mortgage assignment obligations	(96,269)	(93,374)
Net assets with donor restrictions	(777,389)	(1,143,973)
Subtotal	(873,658)	(1,237,347)
Financial assets available to meet cash needs for general expenditures within on year:	$ 581,053	$ 746,673

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 $1 Million.

Supplementary Information
and
Financial and Federal Award Compliance Examination

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2023

Federal Granting Agency and Program Title:	Assistance Listing Number	Federal Award Number	Total Expenditures
Department of the Treasury:			
Treasury - State & Local ARPA - HOPP -Covid-19	**21.027**	**SLFRP2093**	$ 826,381
Department of Housing and Urban Development:			
HUD - VHRM 2019 - Veteran Home Preservation	**14.270**	**VR18GA00010**	35,362
HUD - Section 4 - Capacity Building - Dir. Of Faith	**14.252**	**B20CBGA001**	49,423
			84,785
	Total Expenditures of Federal Awards		$ 911,166

HABITAT FOR HUMANITY METRO MARYLAND, INC.AND SUBSIDIARY
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2023

NOTE 1- **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Habitat under programs of the federal government and is presented on the accrual basis of accounting for the year ended June 30, 2023. The amounts reported as federal expenditures were obtained from Habitat's records. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat, it is not intended to and does not present the financial position, changes net assets or cash flows of Habitat. As a result, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between Habitat and agencies and departments of the federal government.

All of Habitat's federal awards were in the form of cash assistance for the year ended June 30, 2023.

The Habitat had no federally funded insurance programs or loan guarantees during the year ended June 30, 2023.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Habitat has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE 3- **SUBRECIPIENTS**

During the year ended June 30, 2023, Habitat did not provide any awards to subrecipients.

NOTE 4- COMMITMENTS AND CONTINGENCIES

Habitat receives a portion of its revenue from U.S. Government funded contracts and grants, which are subject to audit. The final determination of amounts received under these programs is generally based upon allowable costs reported to and subject to audit by supporting agencies. A contingency exists for Habitat to refund any amounts received in excess of allowable costs. Management believes that disallowed costs, if any, will be immaterial to the financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

Opinion

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat which comprise the statement of financial position as of June 30, 2023, and the related activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
March 13, 2024

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Habitat's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Habitat's major federal programs for the year ended June 30, 2023. Habitat's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Habitat complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Habitat and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Habitat's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Habitat's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Habitat's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Habitat's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Habitat's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Habitat's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
March 13, 2024

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I - Summary of Audit Results

Financial statements

1). Type of auditors' report issued	**UNMODIFIED**
2). Internal control over financial reporting:	
Material weaknesses identified?	**NO**
Significant deficiencies identified that are not considered to be material weaknesses?	**NO**
3). Noncompliance material to the financial statements noted?	**NONE NOTED**

Federal Awards

4). Internal control over major programs:	
Material weaknesses identified?	**NO**
Significant deficiencies identified that are not considered to be material weaknesses?	**NONE REPORTED**
5). Type of auditors' report issued on compliance for major programs	**UNMODIFIED**
6.) Any findings disclosed that are required to be reported in accordance with Section 2CFR 200.2016(a)?	**NO**

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs (Conitnued)
For the Year Ended June 30, 2023

Federal granting Agency and program title	ALN	Expenditures
7). Identification of major programs:		
Department of the Treasury:		
Treasury - State & Local ARPA - HOPP -Covid-19	**21.027**	$ 826,381
8). Dollar threshold used to distinguish between Type A and B programs:	$ 750,000	

9). Auditee qualified to be low-risk auditee? **NO**

HABITAT FOR HUMANITY METRO MARYLAND, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs

There were no reportable findings.

Section IV - Prior year Findings

There were no prior year findings.