

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.**

FINANCIAL STATEMENTS

JUNE 30, 2023

**(WITH COMPARATIVE TOTALS AS OF AND FOR THE
YEAR ENDED JUNE 30, 2022)**

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2022)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Montgomery and Delaware Counties, Inc.
West Norriton, Pennsylvania

Opinion

We have audited the accompanying financial statements of **HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.** (a non-profit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 OF MONTGOMERY AND DELAWARE COUNTIES, INC.** as of June 30, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, 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 these 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 OF MONTGOMERY AND DELAWARE COUNTIES, INC.**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 OF MONTGOMERY AND DELAWARE COUNTIES, 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 OF MONTGOMERY AND DELAWARE COUNTIES, 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.

Report on Summarized Comparative Information

The financial statements of **HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.** as of June 30, 2022 were audited by other auditors whose report dated January 13, 2023 expressed an unmodified opinion on those statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Haefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
January 24, 2024

HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022)

ASSETS

	2023	2022
Current assets		
Cash and cash equivalents	\$ 1,067,843	\$ 1,131,229
Current portion of mortgage notes receivable	223,573	32,208
Contributions receivable	1,009,497	75,925
Employee Retention Credit receivable	-0-	433,742
Other receivables	134,249	4,145
ReStore inventory	121,638	126,379
Marketable securities	795,633	726,329
Property held for sale	-0-	24,670
Prepaid expenses and other current assets	6,595	23,836
Total current assets	3,359,028	2,578,463
Property and equipment		
Land and building	1,577,596	1,572,424
Vehicles and equipment	93,862	85,179
Leasehold improvements	116,848	116,848
	1,788,306	1,774,451
Less accumulated depreciation	(478,700)	(420,526)
Property and equipment, net	1,309,606	1,353,925
Other assets		
Mortgage notes receivable, net	1,061,345	874,676
Construction in progress	680,516	1,218,959
Security deposits, ReStore	29,975	29,975
Operating lease right-of-use asset	345,189	572,675
Total other assets	2,117,025	2,696,285
Total Assets	\$ 6,785,659	\$ 6,628,673

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

HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022)

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
Current liabilities		
Current portion of operating lease liability	\$ 190,225	\$ 209,492
Current portion of loans payable	88,290	88,174
Accounts payable	219,156	104,972
Accrued expenses and other current liabilities	147,495	135,627
Mortgage escrow liability	22,588	21,590
Total current liabilities	<u>667,754</u>	<u>559,855</u>
Loans payable, net	716,717	805,351
Operating lease liability, net	79,806	265,440
Total long-term debt	<u>796,523</u>	<u>1,070,791</u>
 Total liabilities	 <u>1,464,277</u>	 <u>1,630,646</u>
Net assets		
Without donor restrictions	3,894,036	4,836,727
With donor restrictions	1,427,346	161,300
 Total net assets	 <u>5,321,382</u>	 <u>4,998,027</u>
 Total Liabilities and Net Assets	 <u>\$ 6,785,659</u>	 <u>\$ 6,628,673</u>

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

HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 1,618,229	\$ 1,427,346	\$ 3,045,575	\$ 1,576,281
In-kind contributions	103,079	-0-	103,079	200,936
Non-cash inventory contributions	902,625	-0-	902,625	-0-
Home sales	1,116,559	-0-	1,116,559	115,000
ReStore sales	946,318	-0-	946,318	1,301,782
Special events, net of direct benefits to donors of \$19,537 and \$14,431	35,095	-0-	35,095	39,754
Critical home repair revenues	50,882	-0-	50,882	4,854
Employee retention credit	6,504	-0-	6,504	434,994
Other income (expense)	1,512	-0-	1,512	(6,694)
Investment income (loss), net	75,161	-0-	75,161	(76,226)
Bad debt recoveries	173,321	-0-	173,321	-0-
Gain on asset disposal	9,432	-0-	9,432	-0-
Amortization of mortgage notes discounts	123,696	-0-	123,696	129,909
Net assets released from restrictions	161,300	(161,300)	-0-	-0-
	<u>5,323,713</u>	<u>1,266,046</u>	<u>6,589,759</u>	<u>3,720,590</u>
EXPENSES				
Program services				
Program services	2,944,044	-0-	2,944,044	1,303,568
ReStore program	2,187,761	-0-	2,187,761	1,329,079
Total program services	<u>5,131,805</u>	<u>-0-</u>	<u>5,131,805</u>	<u>2,632,647</u>
Supporting services				
Administrative	627,707	-0-	627,707	491,104
Resource development	506,892	-0-	506,892	502,425
Total supporting services	<u>1,134,599</u>	<u>-0-</u>	<u>1,134,599</u>	<u>993,529</u>
Total operating expenses	<u>6,266,404</u>	<u>-0-</u>	<u>6,266,404</u>	<u>3,626,176</u>
Change in net assets	(942,691)	1,266,046	323,355	94,414
Net assets, beginning of year	<u>4,836,727</u>	<u>161,300</u>	<u>4,998,027</u>	<u>4,903,613</u>
Net assets, end of year	<u>\$ 3,894,036</u>	<u>\$ 1,427,346</u>	<u>\$ 5,321,382</u>	<u>\$ 4,998,027</u>

HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023						2022	
	Program Services	ReStore Program	Total Program	Administrative	Resource Development	Direct Benefit to Donors	Total	Total
Salaries	\$ 281,293	\$ 442,839	\$ 724,132	\$ 249,291	\$ 328,663	\$ -0-	\$ 1,302,086	\$ 1,149,344
Payroll taxes	32,640	43,895	76,535	23,533	30,817	-0-	130,885	116,086
Employee benefits	57,909	68,782	126,691	24,281	20,679	-0-	171,651	164,083
Advertising	690	36,630	37,320	-0-	7,180	-0-	44,500	44,293
Auto and truck	4,450	21,737	26,187	1,685	-0-	-0-	27,872	50,532
Bad debt	-0-	-0-	-0-	-0-	-0-	-0-	-0-	212,414
Contributions	-0-	-0-	-0-	-0-	-0-	-0-	-0-	24,000
Construction costs of homes	1,484,107	-0-	1,484,107	-0-	-0-	-0-	1,484,107	266,432
Cost of goods sold, in-kind contributions	-0-	907,366	907,366	-0-	-0-	-0-	907,366	-0-
Cost of goods sold, purchased goods for resale	-0-	37,399	37,399	-0-	-0-	-0-	37,399	45,817
Depreciation	8,663	36,432	45,095	11,346	1,733	-0-	58,174	63,732
Dues, fees, and subscriptions	532	16,196	16,728	72,005	5,570	-0-	94,303	90,204
Fundraising	-0-	853	853	-0-	61,038	19,537	81,428	96,620
Facility	29,326	107,554	136,880	11,347	3,152	-0-	151,379	149,498
Homeowner services	282,361	-0-	282,361	4,059	15,107	-0-	301,527	268,660
Information technology	23,984	24,080	48,064	7,938	19,657	-0-	75,659	83,519
Insurance	20,075	19,553	39,628	6,973	319	-0-	46,920	40,574
Interest expense	7,128	17,120	24,248	10,771	1,427	-0-	36,446	41,932
Lease expense	-0-	298,689	298,689	-0-	-0-	-0-	298,689	194,973
Miscellaneous expense	-0-	641	641	-0-	-0-	-0-	641	7,959
Mortgage discount	626,527	-0-	626,527	-0-	-0-	-0-	626,527	71,124
Office	3,208	14,977	18,185	7,002	2,818	-0-	28,005	13,227
Professional fees	31,592	1,680	33,272	181,298	-0-	-0-	214,570	221,202
Travel and seminars	1,885	1,338	3,223	3,099	693	-0-	7,015	13,317
Vista	29,361	-0-	29,361	-0-	8,039	-0-	37,400	10,129
Total expenses	2,925,731	2,097,761	5,023,492	614,628	506,892	19,537	6,164,549	3,439,671
Less expenses included with revenues on the Statement of Activities	-0-	-0-	-0-	-0-	-0-	(19,537)	(19,537)	(14,431)
Total expenses before in-kinds	2,925,731	2,097,761	5,023,492	614,628	506,892	-0-	6,145,012	3,425,240
Construction costs of homes	18,313	-0-	18,313	-0-	-0-	-0-	18,313	-0-
Facility	-0-	90,000	90,000	-0-	-0-	-0-	90,000	196,651
Professional fees	-0-	-0-	-0-	13,079	-0-	-0-	13,079	4,285
Total in-kinds	18,313	90,000	108,313	13,079	-0-	-0-	121,392	200,936
Total expenses by function	\$ 2,944,044	\$ 2,187,761	\$ 5,131,805	\$ 627,707	\$ 506,892	\$ -0-	\$ 6,266,404	\$ 3,626,176

HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 323,355	\$ 94,414
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization	-0-	1,356
Depreciation	58,174	63,732
Mortgage notes issued	(1,040,158)	(120,182)
Mortgage notes discounts issued	626,527	71,124
Mortgage notes discount amortization	(123,696)	(129,909)
Bad debt expense (recoveries)	(173,321)	212,414
Inventory-donated assets, restore	-0-	9,997
Realized loss on contributed marketable securities	59	-0-
Non-cash contributions of marketable securities	(10,157)	(55,129)
Proceeds from sales of contributed marketable securities	10,098	-0-
In-kind construction services	-0-	15,078
Unrealized (gain) loss on investments	(52,527)	87,816
Loss on involuntary conversion	-0-	3,029
Loss on asset disposal	-0-	3,665
Amortization of operating lease right-of-use asset	227,486	(223,517)
(Increase) decrease in:		
Mortgages notes receivable, net	332,614	227,827
Contributions receivable	(933,572)	(6,039)
Employee Retention Credit receivable	433,742	(296,203)
Other receivables	(130,104)	12,177
Prepaid expenses	17,241	814
Property held for sale	-0-	(24,670)
Construction in progress	538,443	(483,081)
ReStore inventory	4,741	-0-
(Decrease) increase in:		
Accounts payable	114,184	23,606
Accrued expenses and other current liabilities	11,868	38,321
Funds held in escrow	998	(72,267)
Repayments on operating lease liabilities	(204,901)	238,315
Net cash provided by (used in) operating activities	31,094	(307,312)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13,855)	(364,683)
Purchases of marketable securities	(16,777)	-0-
Proceeds from insurance	-0-	40,000
Proceeds from sale of property	24,670	-0-
Reinvestment of investment income, net of fees	-0-	(11,476)
Transfer to operating, net	-0-	66,908
Net cash used in investing activities	(5,962)	(269,251)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of loans payable	(88,518)	(83,482)
Net cash used in financing activities	(88,518)	(83,482)
Net decrease in cash and cash equivalents	(63,386)	(660,045)
Cash and cash equivalents, beginning of year	1,131,229	1,791,274
Cash and cash equivalents, end of year	\$ 1,067,843	\$ 1,131,229

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

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 1 – Nature of Activities

Habitat for Humanity of Montgomery County, Inc. was incorporated in January 1989 under the laws of the Commonwealth of Pennsylvania as a nonprofit social service organization. In 2017, Habitat for Humanity of Montgomery County, Inc. merged in Habitat for Humanity – Delaware County, Pennsylvania, Inc., forming Habitat for Humanity of Montgomery and Delaware Counties, Inc. (the “Organization”).

The Organization is a Pennsylvania nonprofit social service organization that strives to end poverty housing in its community by providing an array of programs geared toward homeownership, home repair, and home preservation for low-income county residents. The Organization works with individuals, organizations, and faith communities to build simple, basic, decent housing and provides no-interest low payment mortgages. In addition, the Organization provides critical repairs to low-income owner-occupied homes, as well as outside preservation to improve families, neighborhoods and our county’s quality of life. In addition, the Organization provides critical repairs to low-income owner-occupied homes, hosts free financial literacy and home-buying readiness courses for adults (Almost Home) and facilitates a Neighborhood Revitalization program that mentors two grassroots community action organizations located in Pottstown, PA and Norristown, PA. Its programs combine to build new, improve existing housing, create a pathway to homeownership for low and moderate income families, and improve the quality of life in our counties, by empowering citizens. The Organization is an affiliate of Habitat for Humanity International, Inc. (“HFHI”), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists the Organization with information, resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operations.

The Organization has two thrift-style retail outlets called ReStores which offer new and gently used household goods and building materials at deeply discounted prices while providing volunteer and recycling opportunities.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting, and accordingly, reflects all significant receivables, payables, and other liabilities. Consequently, revenue is recognized as described below in the section entitled Revenue and Revenue Recognition and expenses are recognized when the obligations are incurred.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Presentation

The financial statement preparation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Subtopic 958-205, to ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, its net assets and revenues have been reported according to the following classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Grants specified for home projects are considered net assets with donor restrictions. See Note 9 to the financial statements for additional information on net assets with donor restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the Statement of Activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although management believes the estimates that have been used are reasonable, as events continue to evolve and additional information becomes available, actual results could vary from the estimates that were used.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue and Revenue Recognition

Contributions

Contributions are recognized when cash, donated investments or other assets, unconditional promises to give, or other various notifications of a beneficial interest is received. Conditional contributions, including those received as conditional promises to give, that is, those with a measurable performance or other barrier, and right of return or release of assets, are not recognized until the conditions on which they depend have been substantially met. As of June 30, 2023, the Organization had remaining available award balances on conditional grants totaling \$366,000.

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Program Income

The Organization recognizes program income as exchange transactions. Home sales are considered exchange transactions. Revenues are recognized from the home sales when ownership of the home is transferred to the purchaser. Revenues are recognized from the home sales at the time of sale, thus, at a point in time. Also see Home Sales and Mortgage Notes Receivable section below.

Program income also includes ReStore sales, which are considered exchange transactions. Revenues are recognized from the sale of items in the ReStore when the products are transferred to the customer in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products. ReStore revenues are recognized at the time of sale, thus, at a point in time. The Organization collects sales tax from customers on these sales and remits the entire amount to the state. All items are sold as-is and are non-refundable. There is no variable consideration or significant financing components connected with ReStore sales.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue and Revenue Recognition (continued)

Contributions - In-kind

Volunteers contribute significant amounts of time to program and support services; however, the financial statements do not reflect the value of these contributed services because they do not meet the necessary criteria for recognition under GAAP. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. The Organization recognizes contributed professional services if the services received (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. Contributions - in-kind received during the year ended June 30, 2023 included donated space for operations and professional fees, including pro-bono legal services and engineering services. See Note 11 to the financial statements for further detail. Contributions - in-kind are recorded as both revenue and support and program services, and therefore, there is no effect on the change in net assets.

Home Sales and Mortgage Notes Receivable

Sales to homeowners are recorded at the gross amount with the sales price determined by comparable home sales in similar markets. The Organization has financed mortgage notes to homeowners, collateralized by first mortgages recorded as liens against the properties sold to the homeowner by the Organization. These non-interest-bearing mortgages have been discounted using a discount rate established by HFHI, based on the Internal Revenue Service (“IRS”) Index of Applicable Federal Rates Rulings for low income housing tax credits. Utilizing the straight-line basis, these discounts are recognized as income over the term of the mortgage note. The Organization has implemented a formal collection policy. A provision for credit losses has been recognized based upon management’s review of existing receivables. At June 30, 2023, an allowance for credit losses of \$375,837 against mortgage notes receivables was established. Management updated this provision in the year ended June 30, 2023, based on mortgage payment history and future expected payments resulting in bad debt recoveries of \$173,321.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue and Revenue Recognition (continued)

Home Sales and Mortgage Notes Receivable (continued)

In addition, the Organization provides and has provided second and third silent mortgages in connection with the sales of certain homes. These mortgages are non-interest bearing and are fully forgiven provided certain factors are met including that the first mortgage does not go into default. If the first mortgage goes into default, then the silent mortgages are to be paid. Silent mortgage forgiveness is also contingent on how long the homeowner lives in the home. The time period ranges from 5 to 15 years for this requirement. These amounts are not recorded in the Statements of Financial Position as the conditions under which they may be collectible are uncertain. This is in accordance with the GAAP rule of conservatism and non-recognition of contingent assets.

Donated Services

Volunteers contribute significant amounts of time to program and support services; however, the financial statements do not reflect the value of these contributed services because they do not meet the necessary criteria for recognition under GAAP. The Organization recognizes volunteer services if the services received (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. In-kind contributions of services, if any, are recorded as both revenue and expense and therefore, there is no effect on the change in net assets.

ReStore Inventory

ReStore inventory consists of purchased and donated items and supplies. Inventory is stated at the lower of cost or net realizable value. Cost is determined by the specific identification method if purchased, or fair value if donated. Net realizable value is equal to the sales price determined as half of retail selling price and subsequently adjusted for slow moving items.

The Organization receives significant donations of goods during the year in addition to the items that are purchased. The donated goods have been recorded as both a contribution and increase in inventory. When sold, the Organization recognizes a program expense at a value equal to the donated value. The value of donated goods sold, included as non-cash contributions in the accompanying financial statements, are included in the corresponding cost of goods sold expense accounts on the Statement of Activities. See Note 11 to the financial statements for further detail.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Marketable Securities

The Organization’s investments include investments in exchange traded and mutual funds with readily determinable fair values that are reported at fair value in the Statement of Financial Position (see Note 5 to the financial statements). Unrealized gains and losses are included in the change in net assets in the Statement of Activities. Investment income, including realized and unrealized gains or losses, is reported as an increase or decrease in net assets without donor restrictions in the reporting period in which the income or loss is recognized and is used to support operations.

Property and Equipment and Depreciation

Property and equipment are recorded at cost if purchased or at fair value if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of assets for financial reporting purposes are as follows: building, 25 years; leasehold improvements, 10 years; and vehicles and equipment, range from 5 to 10 years. The Organization capitalizes all property and equipment purchased with a cost of \$1,000 or more. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

The Organization reviews the carrying value of its property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. Based on these reviews, there were no adjustments to the carrying value of long-lived assets for the year ended June 30, 2023.

Depreciation expense for the year ended June 30, 2023 was \$58,174.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Construction in Progress

The amounts included in construction in progress consist of capitalized costs associated with the renovation of properties that the Organization holds with future plans to sell. Costs associated with the renovation of properties, including labor costs, are capitalized. When the property is sold, the related costs are offset against the sale price and the excess revenue or expense is reflected in the Statement of Activities. Any excess revenue from the sale of a property is used to offset overhead costs and to provide for the continuation of the Organization's mission.

Advertising

Advertising costs are expensed when incurred. Advertising expense for the year ended June 30, 2023 was \$44,500.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as interest expense and is computed using the straight-line method over the term of the related debt. Amortization of debt issuance costs for the year ended June 30, 2023 was \$602. Accumulated amortization as of June 30, 2023 was \$8,527. In 2021, the Organization modified a mortgage agreement with a financial institution and paid \$7,500 in fees. The fees are reported as interest expense and are amortized using the straight-line method over the term of the mortgage. Amortization of loan fees for the year ended June 30, 2023 was \$533 and accumulated amortization was \$1,287 as of June 30, 2023.

Compensated Absences

The Organization accrues accumulated paid time off when earned by the employee. An employee can carry forward 40 hours to the next calendar year. Eligible employees who end their employment with the Organization are reimbursed for their accumulated paid time off. The accrued accumulated paid time off was \$37,550 as of June 30, 2023 and included in Accrued expenses and other current liabilities on the Statement of Financial Position.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs, administrative, and resource development categories benefited. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses may be attributable to more than one program or supporting function, but are charged directly to that function as their usage is directly identifiable. Salaries and benefits related costs are allocated on the basis of time and effort.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization follows the accounting guidance for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's Federal Exempt Organization informational returns (Form 990) for 2022, 2021, and 2020 are subject to examination by the IRS, generally for three years after filing.

Statement of Cash Flows

For financial statement purposes, the Organization considers all highly liquid financial instruments with an original maturity of three months or less to be cash equivalents.

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 2 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Adopted

Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13 “Financial Instruments – Credit Losses (Topic 326).” The overall objective of the standard is to enable financial statement users to understand the credit risk inherent in the Organization’s portfolio and how management monitors the portfolio’s credit quality, management’s estimate of expected credit losses, and the changes in the estimate of expected credit losses that have taken place during the period. ASU 2016-13 requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Organizations will now use forward-looking information to better inform their credit loss estimates. The effective date of the standard is fiscal years beginning after December 15, 2022. The Organization is currently evaluating the standard and its impact on the financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 3 – Concentration of Credit Risk

The Organization maintains cash and cash equivalents at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. At various times during the year, the Organization’s bank balances may have been in excess of federally insured limits. At June 30, 2023, the Organization’s amounts in excess of insured limits totaled \$330,915.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 4 – Availability and Liquidity

The following represents the Organization’s financial assets at June 30, 2023:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,067,843
Current portion of mortgage notes receivable	223,573
Contributions receivable	1,009,497
Other receivables	134,249
Marketable securities	<u>795,633</u>
Financial assets at year end	3,230,795
Less net assets with purpose and/or time restrictions not available to be used within one year	<u>-0-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,230,795</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds.

The Organization typically maintains its financial assets other than receivables and promises to give in cash accounts or investments available for sale with a goal of having funds available when needed. The above calculation of financial assets available to meet general expenditures over the next twelve months does not consider amounts necessary to satisfy current liabilities, such as accounts payable and accrued expenses as well as accrued payroll and liabilities, as these are considered general expenditures though the expense has been incurred in the current year and payment will occur in the subsequent year.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 5 – Marketable Securities

The Organization maintains an investment account that can be used for various programs when needed. The Organization’s investment policy is focused on maximizing total return consistent with an acceptable level of risk. Investment assets are invested in a diversified asset mix, which includes exchange traded funds, closed end funds, and mutual funds, as well as a money market account, all of which are intended to result in a consistent rate of return that also has sufficient liquidity to make expense withdrawals as needed. The money market account is considered a cash equivalent and is presented as such within the Statement of Financial Position. Investments contain various types of liquid assets and are classified as current assets within the Statement of Financial Position.

Summary information about the investments at June 30, 2023 is as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Cumulative Unrealized Gain</u>
Exchange traded funds	\$ 531,517	\$ 719,500	\$ 187,983
Mutual funds	<u>64,891</u>	<u>76,133</u>	<u>11,242</u>
Total	<u>\$ 596,408</u>	<u>\$ 795,633</u>	<u>\$ 199,225</u>

Accounting standards for fair value measurements establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization uses appropriate valuation techniques based on the available inputs to measure fair value of its investments when available.

The fair value of exchange traded funds and mutual funds have been measured on a recurring basis using Level 1 inputs, which are based on unadjusted quoted market prices within active markets. There have been no changes in valuation techniques and related inputs.

Unrealized gain in the fair market value of marketable securities included in the Statements of Activities and Cash Flows for the year ended June 30, 2023 was \$52,527.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 6 – Mortgage Notes Receivable

At June 30, 2023, mortgage notes receivable consists of loans on properties that were developed by the Organization. These loans are noninterest bearing, with maturities ranging from 20 to 30 years, and are secured by the related properties. At June 30, 2023, the balance of mortgage notes receivable was \$1,284,918.

The Organization accounts for its mortgage notes in accordance with the HFHI's U.S. Affiliate Accounting Policy Manual. Under this guide, the non-interest bearing mortgage notes are discounted to their present value at the time the mortgage note is issued, using an imputed interest rate, averaging approximately 8% (see Note 2 to the financial statements, home sales and mortgage notes receivable, for discussion on rate). The discounted amount is amortized over the term of the mortgage note on the straight-line method.

The balance of mortgage notes receivable on a net basis at June 30, 2023 is as follows:

Mortgage notes receivable, gross	\$ 4,253,374
Current portion of mortgage notes receivable	<u>(223,573)</u>
	4,029,801
Unamortized discount	(2,592,619)
Allowance for credit losses	<u>(375,837)</u>
Mortgage notes receivable, net	<u>\$ 1,061,345</u>

Future undiscounted long-term principal maturities of mortgage notes receivable at June 30, 2023 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2025	\$ 221,781
2026	220,107
2027	220,107
2028	216,932
2029	206,313
Thereafter	<u>2,944,561</u>
	<u>\$ 4,029,801</u>

Mortgage discount amortization totaled \$123,696 for the year ended June 30, 2023.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 6 – Mortgage Notes Receivable (continued)

Currently, the Organization services a portion of the mortgage notes in its portfolio. The Organization collects all principal and escrow payments on the mortgage notes. The escrow payments are collected from the homeowners and paid out for real estate taxes and insurance. At June 30, 2023, the mortgage escrow liability was \$22,588.

Note 7 – Line of Credit

The line of credit is provided under a \$200,000 agreement that is automatically renewable on an annual basis. Interest is due monthly at the WSJ prime rate which was 8.25% at June 30, 2023. The agreement is secured by a blanket lien of all assets. At June 30, 2023, the Organization had no amounts outstanding under the line of credit.

Note 8 – Loans Payable

Mortgage note payable to financial institution in the amount of \$1,152,000 with monthly installments of \$6,359, which includes interest at 3.75% per annum through March 2035; secured by the Organization’s real estate, buildings, improvements, fixtures, machinery, equipment, and materials.

\$ 724,262

Business loan payable to financial institution in the amount of \$270,000 with monthly installments of \$3,804, which includes interest at a variable rate equal to the WSJ Prime Rate plus 1 percent (9.25% as of June 30, 2023); due May 2025; secured by the mortgage notes receivable of the Organization.

93,491

Total debt	817,753
Less: current portion	<u>(88,290)</u>
Long-term debt, less current portion	729,463
Less: unamortized deferred debt issuance costs	<u>(12,746)</u>
Total long-term debt, net	<u><u>\$ 716,717</u></u>

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 8 – Loans Payable (continued)

Future Maturities

Maturities of long-term debt at June 30, 2023 are as follows:

<u>Year ending June 30,</u>	
2025	\$ 107,112
2026	53,890
2027	55,946
2028	58,080
2029	60,296
Thereafter	<u>394,139</u>
	<u>\$ 729,463</u>

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following programs or purposes at June 30, 2023:

Restrictions related to purpose:	
Construction	\$ 1,427,346

Net assets were released from restrictions by incurring expenses to satisfy the specified restriction in the following amounts for the year ended June 30, 2023:

Purpose restrictions:	
Construction	\$ 58,450
Critical home repair	<u>102,850</u>
Total	<u>\$ 161,300</u>

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 10 – Leases

Operating Leases

The Organization leases store space under a long-term operating lease agreement that expires in November 2024, which is classified and accounted for as an operating lease. The operating lease includes one or more options to renew, at the Organization’s sole discretion, with renewal terms that can extend the lease term upon each renewal. The Organization does not consider renewal options to be reasonably certain to be exercised, therefore renewal options are generally not recognized as part of the right-of-use (“ROU”) assets and lease liabilities.

The Organization has made an accounting policy election not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less, and with no purchase option that the Organization is reasonably certain to exercise. ROU assets and lease liabilities are recognized based on the present value of the fixed and in-substance fixed lease payments over the lease term at the commencement date.

Operating lease cost is recognized on the straight-line method over the lease term. The depreciable life of the ROU asset is typically limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. The lease agreement does not contain any significant residual value guarantees or material restrictive covenants.

The Organization’s lease agreement for real estate includes payments based on actual common area maintenance expenses. These additional lease payments are recognized as other operating expenses but are not included in the ROU asset or lease liability balance.

Operating lease expense, including amounts for short-term leases and additional rent expense, for the year ended June 30, 2023 was \$298,689. Short term lease and additional expense totaled \$53,636 for the year ended June 30, 2023.

At June 30, 2023, the remaining lease term for the operating lease was 17 months and the discount rate used for the operating lease was 0.97%. At June 30, 2023, the balances of the right-of-use asset and operating lease liability were \$345,189 and \$270,031 (\$190,225 of which was classified as current), respectively.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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Note 10 – Leases (continued)

Operating Leases (continued)

Future undiscounted cash flows and reconciliation to the operating lease liabilities at June 30, 2023 are as follows:

<u>Year ending June 30,</u>		
2024	\$	192,000
2025		<u>80,000</u>
Total lease payments		272,000
Less imputed interest		<u>(1,969)</u>
Total present value of operating lease liabilities	\$	<u><u>270,031</u></u>

There were no subleases during the year ended June 30, 2023. Further, there are no leases that have not yet commenced, which would create significant rights and obligations.

Note 11 – Contributed Materials and Services

The value of contributed services and materials included as in-kind contributions, in the accompanying Statement of Activities for the year ended June 30, 2023 is as follows:

Facility	90,000
Professional fees	13,079
Non-cash inventory contributions	<u>902,625</u>
Total in-kind revenues	<u><u>\$ 1,005,704</u></u>

In the year ended June 30, 2023, in-kind expenses for construction costs of homes totaling \$18,313 were presented on the Statement of Functional Expenses. These costs were recognized as in-kind revenues in the year ended June 30, 2022.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 11 – Contributed Materials and Services (continued)

Contributed facility expenses is office space donated to the Organization recorded at fair value of the rent that would ordinarily be charged. Contributed professional fees include engineering services provided for homes that are still owned by the Organization, legal services, and repair services provided to the Organization. Contributed professional fees are recorded at the fair value of the donated time that would ordinarily be charged for their services. Non-cash inventory contributions consist of donated items to the Restore locations that have been recorded as both a contribution and increase in inventory. The contributions are recorded at the value at the time of donation, which is typically equivalent to initial estimated selling price. For the majority of items, the initial estimated selling price is approximately half of the retail value. Non-cash inventory contributions are reported as program expenses when sold as cost of goods sold on the accompanying Statement of Functional Expenses.

Note 12 – Special Event Revenue

During the year ended June 30, 2023 the Organization hosted a fundraising gala called No Place Like Home. The event’s revenues and expenses have been appropriately recognized in accordance with GAAP. Revenue from the event is recorded according to the company’s revenue recognition policy. Expenses are recorded when incurred.

Note 13 – Related Party Transactions

The Organization had the following transactions with HFHI for the year ended June 30, 2023 including the following payments.

Habitat SOSI annual cost-sharing fee	\$ 25,000
Tithe	<u>4,000</u>
Total payments	<u>\$ 29,000</u>

In addition, the Organization received in-kind contributions in the form of donated space and legal services from members of the board of directors during the year ended June 30, 2023. The amounts were \$90,000 and \$4,891, respectively.

**HABITAT FOR HUMANITY OF MONTGOMERY AND DELAWARE COUNTIES,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

Note 14 – Supplementary Disclosure of Cash Flow Information

For the year ended June 30, 2023, cash paid for interest was \$32,860.

During the year ended June 30, 2023, the Organization received \$10,157 in a stock donation, which was a non-cash operating activity, that was sold for \$10,098. There were no non-cash investing and financing activities for the year ended June 30, 2023.

Note 15 – Subsequent Events

The Organization evaluated subsequent events through January 24, 2024, the date these financial statements were available to be issued. There were no material subsequent events that required recognition in these financial statements. There were no additional disclosures in these financial statements, except for the following. On January 16, 2024, the Organization sold its property on Willow Street. As of June 30, 2023, the Organization had an outstanding contribution receivable of \$250,000 from the County of Montgomery (“County”) for development of the Willow Street property. The money has not been received but management believes that the County will agree to reallocate the funds to another project. Therefore, no allowance for credit losses has been established for that receivable.