

**HABITAT FOR HUMANITY OF
WICOMICO COUNTY, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

**HABITAT FOR HUMANITY OF
WICOMICO COUNTY, INC.**

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of financial position	3 – 4
Statements of activities	5 – 6
Statements of functional expenses	7 – 8
Statements of cash flows	9
Notes to financial statements	10 – 22
<i>GOVERNMENT AUDITING STANDARDS REPORT</i>	
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 <i>Government Auditing Standards</i>	23 – 24



INDEPENDENT AUDITORS' REPORT

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JAMES D. MAYBURY, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
ASHLEY M. STERN, CPA
JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
SUITE 1
P.O. Box 192
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

To the Board of Directors
Habitat for Humanity of Wicomico County, Inc.
Salisbury, Maryland

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Wicomico County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Wicomico County, Inc., and the changes in its 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 (GAAS), and only for the year ended June, 30, 2023, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Wicomico County, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 GAAS 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 GAAS, 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 Wicomico County, 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 Wicomico County, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, on our consideration of Habitat for Humanity of Wicomico County, Inc.'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 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 of Wicomico County, Inc.'s internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 8, 2023

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash	\$ 840,365	\$ 528,942
Accounts receivable	1,569	33,903
Grants receivable	155,644	13,727
Prepaid expenses	10,086	15,081
ReStore inventory	95,046	85,628
Construction in progress	1,308,524	974,834
Current portion of notes receivable	46,868	30,536
Current portion of mortgages receivable	133,645	166,448
Security deposit		5,000
Total current assets	<u>2,591,747</u>	<u>1,854,099</u>
NON-CURRENT ASSETS		
Cash - restricted	63,074	52,230
Land and buildings held for development	803,928	352,503
Notes receivable, net of discount and current portion	165,073	151,086
Mortgages receivable, net of discount and current portion	1,005,323	1,072,946
Property and equipment, net	371,109	384,362
Total non-current assets	<u>2,408,507</u>	<u>2,013,127</u>
Total assets	<u>\$ 5,000,254</u>	<u>\$ 3,867,226</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2023 AND 2022

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Current portion of note payable and long-term debt	\$ 45,641	\$ 18,537
Current portion of operating lease payable	1,416	
Accounts payable	36,764	104,001
Accrued payroll and related expenses	61,971	43,738
Sales tax payable	8,242	8,354
Homeowner deposits	4,015	4,796
Total current liabilities	<u>158,049</u>	<u>179,426</u>
NON-CURRENT LIABILITIES		
Escrow deposits	63,074	52,230
Note payable less current portion	24,125	33,234
Long-term debt less current portion	1,300,103	1,000,194
Operating lease payable, less current portion	4,676	
Total non-current liabilities	<u>1,391,978</u>	<u>1,085,658</u>
Total liabilities	<u>1,550,027</u>	<u>1,265,084</u>
NET ASSETS		
Without donor restrictions		
Operating	2,697,362	2,422,415
Investment in fixed assets, net of related debt	32,525	32,397
	<u>2,729,887</u>	<u>2,454,812</u>
With donor restrictions	720,340	147,330
Total net assets	<u>3,450,227</u>	<u>2,602,142</u>
Total liabilities and net assets	<u>\$ 5,000,254</u>	<u>\$ 3,867,226</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions of cash and other financial assets	\$ 108,531	\$ 185,665	\$ 294,196
Grants	1,614,994	483,125	2,098,119
ReStore revenues	581,220		581,220
Less: cost of goods sold	(567,315)		(567,315)
Contributions of nonfinancial assets - ReStore	564,260		564,260
Contributions of nonfinancial assets - Affiliate	183,067		183,067
Sales to homeowners	460,146		460,146
Neighborhood revitalization income		122,322	122,322
Mortgage and note interest income	306,347		306,347
Other program income	4,920		4,920
Rental income	56,129		56,129
Special events income, net	80,144		80,144
Interest income	1,295		1,295
Recycling income	4,547		4,547
Miscellaneous income	1,524		1,524
Net assets released from restrictions	218,102	(218,102)	
Total public support and revenues	3,617,911	573,010	4,190,921
EXPENSES			
Program services			
Housing and other services	2,707,406		2,707,406
ReStore expenses	363,187		363,187
Supporting services			
Management and general	163,418		163,418
Fundraising	108,825		108,825
Total expenses	3,342,836	573,010	3,342,836
Change in net assets	275,075	573,010	848,085
NET ASSETS, BEGINNING OF YEAR	2,454,812	147,330	2,602,142
NET ASSETS, END OF YEAR	\$ 2,729,887	\$ 720,340	\$ 3,450,227

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions of cash and other financial assets	\$ 97,619	\$ 7,041	\$ 104,660
Grants	4,680,551		4,680,551
ReStore revenues	540,174		540,174
Less: cost of goods sold	(548,769)		(548,769)
Contributions of nonfinancial assets - ReStore	520,672		520,672
Contributions of nonfinancial assets - Affiliate	278,374		278,374
Sales to homeowners	328,200		328,200
Neighborhood revitalization income		159,133	159,133
Mortgage and note interest income	87,557		87,557
Other program income	1,821		1,821
Rental income	43,880		43,880
Special events income, net	72,420		72,420
Interest and dividend income	192		192
Recycling income	5,827		5,827
Miscellaneous income	516		516
Net assets released from restrictions	170,666	(170,666)	
Total public support and revenues	6,279,700	(4,492)	6,275,208
EXPENSES			
Program services			
Housing and other services	5,556,955		5,556,955
ReStore expenses	389,554		389,554
Supporting services			
Management and general	128,431		128,431
Fundraising	44,617		44,617
Total expenses	6,119,557	(4,492)	6,119,557
Change in net assets	160,143	(4,492)	155,651
NET ASSETS, BEGINNING OF YEAR	2,294,669	151,822	2,446,491
NET ASSETS, END OF YEAR	\$ 2,454,812	\$ 147,330	\$ 2,602,142

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services			Supporting Services			Total
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	
EXPENSES							
Salaries	\$ 267,839	\$ 218,763	\$ 486,602	\$ 69,180	\$ 63,605	\$ 132,785	\$ 619,387
Employee benefits	5,016	4,343	9,359	687	687	1,374	10,733
Payroll taxes	15,526	17,467	32,993	7,731	1,798	9,529	42,522
Construction and land costs	839,165		839,165				839,165
Mortgage and note discount	229,010		229,010				229,010
Cost of goods sold		567,315	567,315				567,315
Rental property expense	7,750		7,750				7,750
Professional fees	1,103		1,103	21,705	8,855	30,560	31,663
Legal fees	4,287		4,287				4,287
International tithe							
Supplies	6,878	7,043	13,921	3,041	1,810	4,851	18,772
Telephone	3,179	4,639	7,818	1,160	1,160	2,320	10,138
Interest	6,777	19,141	25,918	2,999	2,837	5,836	31,754
Postage and shipping	1,932		1,932	309	693	1,002	2,934
Equipment	4,480	1,253	5,733	7,623	4,714	12,337	18,070
Printing and publications	177		177	169	3,745	3,914	4,091
Meetings	4,081	374	4,455	584	2,190	2,774	7,229
Dues and subscriptions	1,940		1,940	11,927	1,055	12,982	14,922
Advertising	2,183		2,183	718	12,009	12,727	14,910
Taxes	17,462	3,058	20,520	2,637	1,296	3,933	24,453
Training	1,218		1,218	2,911	128	3,039	4,257
Depreciation and amortization	744	25,871	26,615	6,580		6,580	33,195
Insurance	20,391	5,389	25,780	3,924		3,924	29,704
Mission costs	10,767	4,059	14,826				14,826
Occupancy expenses	5,740	24,812	30,552	1,253	1,521	2,774	33,326
Other expenses	9,883	12,295	22,178	18,280	722	19,002	41,180
Direct special event expenses					36,408	36,408	36,408
Vehicles		14,680	14,680				14,680
Emergency rental assistance program	1,239,878		1,239,878				1,239,878
Total expenses by function	<u>2,707,406</u>	<u>930,502</u>	<u>3,637,908</u>	<u>163,418</u>	<u>145,233</u>	<u>308,651</u>	<u>3,946,559</u>
Less cost of goods sold		(567,315)	(567,315)				(567,315)
Less direct expenses for special events					(36,408)	(36,408)	(36,408)
Total expenses as presented on the Statements of Activities	<u>\$ 2,707,406</u>	<u>\$ 363,187</u>	<u>\$ 3,070,593</u>	<u>\$ 163,418</u>	<u>\$ 108,825</u>	<u>\$ 272,243</u>	<u>\$ 3,342,836</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services			Supporting Services			Total
	Housing and Other Services	ReStore Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	
EXPENSES							
Salaries	\$ 248,008	\$ 206,528	\$ 454,536	\$ 65,062	\$ 22,351	\$ 87,413	\$ 541,949
Employee benefits	5,163	4,045	9,208	1,893	1,276	3,169	12,377
Payroll taxes	21,927	16,254	38,181	4,929	1,682	6,611	44,792
Construction and land costs	437,233		437,233				437,233
Mortgage and note discount	230,565		230,565				230,565
Cost of goods sold		548,769	548,769				548,769
Rental property expense	4,733		4,733				4,733
Professional fees	31		31	12,312	31	12,343	12,374
Legal fees							
International tithe	24,893		24,893				24,893
Supplies	5,124	8,844	13,968	5,107	4,006	9,113	23,081
Telephone	2,122	4,654	6,776	1,061	871	1,932	8,708
Interest	2,000	13,224	15,224	872	872	1,744	16,968
Postage and shipping	562		562	1,243	886	2,129	2,691
Equipment	5,315	6,297	11,612	11,737	4,787	16,524	28,136
Printing and publications	575		575	356	2,258	2,614	3,189
Meetings	4,777	2,517	7,294	4,103	1,970	6,073	13,367
Dues and subscriptions	289	350	639	8,991	230	9,221	9,860
Advertising	71,569	50,080	121,649	555	1,680	2,235	123,884
Taxes	6,465	3,059	9,524	555	255	810	10,334
Training	1,041		1,041	565	271	836	1,877
Depreciation and amortization		21,552	21,552	3,430		3,430	24,982
Insurance	23,291	6,212	29,503	1,747		1,747	31,250
Mission costs	8,846	3,901	12,747				12,747
Occupancy expenses	9,195	17,932	27,127	1,990	1,176	3,166	30,293
Other expenses	3,450	9,639	13,089	1,923	15	1,938	15,027
Direct special event expenses					17,971	17,971	17,971
Vehicles		14,466	14,466				14,466
Licenses	728		728				728
Emergency rental assistance program	4,439,053		4,439,053				4,439,053
Total expenses by function	<u>5,556,955</u>	<u>938,323</u>	<u>6,495,278</u>	<u>128,431</u>	<u>62,588</u>	<u>191,019</u>	<u>6,686,297</u>
Less cost of goods sold		(548,769)	(548,769)				(548,769)
Less direct expenses for special events					(17,971)	(17,971)	(17,971)
Total expenses as presented on the Statements of Activities	<u>\$ 5,556,955</u>	<u>\$ 389,554</u>	<u>\$ 5,946,509</u>	<u>\$ 128,431</u>	<u>\$ 44,617</u>	<u>\$ 173,048</u>	<u>\$ 6,119,557</u>

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 848,085	\$ 155,651
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	33,195	24,982
Mortgage and note discount	229,010	230,565
Donated property and equipment	(12,500)	
Change in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Accounts receivable	32,334	(33,025)
Grants receivable	(141,917)	54,125
Prepaid expenses	4,995	(8,533)
ReStore inventory	(9,418)	5,098
Land and buildings held for development	(451,425)	29,432
Construction in progress	(333,690)	(723,259)
Security deposit	5,000	(4,300)
Notes receivable	(59,961)	(57,548)
Mortgages receivable	(98,942)	(278,236)
Increase (decrease) in operating liabilities:		
Accounts payable	(67,237)	65,207
Accrued payroll and related expenses	18,233	11,487
Operating lease payable	(1,350)	
Sales tax payable	(112)	518
Homeowner deposits	(781)	3,896
Escrow deposits	10,844	(218)
Net cash provided (used) by operating activities	4,363	(524,158)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(4,617)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit		(2,041)
Payments on long-term debt	(132,096)	(16,292)
Proceeds from long-term debt	450,000	700,000
Net cash provided by financing activities	317,904	681,667
Net increase in cash	322,267	152,892
CASH, BEGINNING OF YEAR	581,172	428,280
CASH, END OF YEAR	\$ 903,439	\$ 581,172
SUPPLEMENTARY INFORMATION		
Cash paid for interest	\$ 62,324	\$ 16,968
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchase of property and equipment	\$ 19,942	\$ 47,617
Less: Issuance of note payables	7,442	43,000
Less: value of donated property and equipment	12,500	
Cash paid to acquire property and equipment	\$	\$ 4,617

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

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NATURE OF ORGANIZATION

Habitat for Humanity of Wicomico County, Inc. (the “Organization”), founded in 1987, is a non-profit, 501(c)(3) organization incorporated in the State of Maryland. The Organization is one of over 1400 affiliates of Habitat for Humanity International, Inc. (“Habitat International”); however, the Organization’s financials and operations are independent of any other affiliate.

The key programs of the Organization are home building of affordable homes to first-time homebuyers, home repairs for older homeowners, and the retail thrift shop (“ReStore”). The Organization serves low-income families that earn between 30-60% of the area median income for our first-time homebuyer program and under 80% of the area median income for our Roof & Repair program. The Organization is a licensed Maryland home builder, exempt Maryland Mortgage lender and a licensed National Mortgage Licensed non-profit. The Organization also accepts donations of used furniture, building materials, appliances and household items that are resold in ReStore. The ReStore funds the mission and provides operating income for the entire organization plus additional net income to fund the Organization’s home building and home repair programs. The Organization’s income is derived from the mortgage payments of the loans they service, sales from the ReStore thrift store, donations from individuals and businesses, and grants from both government and independent foundations. Many of the grants and federal funds are restricted to construction materials for the two programs but as of recently, workforce development grants also funded salaries and stipends for new positions and social work interns.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation

The Organization has adopted the provisions of the American Institute of Certified Public Accountants’ *Audit and Accounting Guide for Not-For-Profit Entities* in the presentation of its financial information. Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (Continued)

Net assets with donor restrictions: Net assets that are stipulated by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or passage of time.

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 restrictions to net assets without donor restrictions in the Statements of Activities. The Organization has elected to treat all support in which the restrictions are met in the current year as unrestricted support.

Contributions

Contributions received are recorded depending on the existence and/or nature of any donor restrictions. Contributions of inventory items to the ReStore are valued at their estimated sale value and recorded as revenue separately in the Statement of Activities.

Inventories

ReStore inventory, which consists of donated goods to be sold at the thrift store, is recorded at an estimated fair value.

Land and buildings held for development are recorded at cost paid or appraised value of properties donated and consist of various properties for future development and certain properties under construction.

Construction in progress

Construction in progress is comprised of construction costs incurred in current Habitat homes under construction or in repair and valued at cost.

Property and equipment

Property and equipment are capitalized if it has a value greater than or equal to \$5,000 and is carried at cost when purchased and at fair market value when received, if donated. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the respective assets ranging from three to ten years for equipment, and ten to forty years for buildings and improvements. The cost of maintenance and repairs is charged to expense as incurred while significant renewals and betterments are capitalized.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

Cost, depreciation and accumulated depreciation at June 30, 2023 are as follows:

	<u>Cost</u>	<u>Current Depreciation</u>	<u>Accumulated Depreciation</u>
Land	\$ 74,000	\$	\$
Building	295,778	9,859	138,033
Building improvements	139,171	6,134	63,931
Furniture and equipment	27,030	530	27,030
Vehicles	104,044	15,184	45,874
Right-of-use lease asset	7,442	1,488	1,488
	<u>\$ 647,465</u>	<u>\$ 33,195</u>	<u>\$ 276,356</u>

Cost, depreciation and accumulated depreciation at June 30, 2022 are as follows:

	<u>Cost</u>	<u>Current Depreciation</u>	<u>Accumulated Depreciation</u>
Land	\$ 74,000	\$	\$
Building	295,778	9,860	128,174
Building improvements	139,171	6,134	57,796
Furniture and equipment	27,030	1,234	26,501
Vehicles	91,544	7,754	30,690
	<u>\$ 627,523</u>	<u>\$ 24,982</u>	<u>\$ 243,161</u>

Contributed nonfinancial assets

Services - Contributed services recognized include those that require specialized skills, are provided by individuals possessing those skills, and would otherwise need to be purchased if not provided by donation. The services are valued at the amount that would have to be paid if purchased.

Donated materials and property - In-kind contributions of material and property are recorded based on their estimated fair market value on the date of receipt.

Sales to homeowners/construction and land costs

Sales to homeowners are recorded at gross sales price of Organization homes to the final owner and recognized at the date of settlement and transfer of title, at which point the performance obligation is met as defined in ASC 606. The accumulated costs of construction and land carrying value are then removed from their respective asset accounts and recognized on the Statement of Functional Expenses at total cost.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Organization's revenues consist mainly of grant income and contributions, which do not fall within the scope of ASC 606. Revenues within the scope of ASC 606 include program income from homeownership education workshops, home sales and ReStore sales, which primarily consists performance obligations that are satisfied within one year or less.

Mortgages receivable

The Organization is both the builder and the lender to its clients. Mortgages receivable are recorded at the gross amount of payments to be received over the lives of the mortgages ranging from seven to 30 years and then discounted. Habitat for Humanity International publishes a discount rate yearly each June 30 for Affiliates to reference in computing mortgage discounts based on prevailing market rates for low income housing at inception of the mortgages. Mortgage discounts range from 7.23% to 9% from 1996 to 2023. For the year ended June 30, 2023 and 2022, mortgage discount rates were 7.85% and 7.49%, respectively; there were two new mortgages issued in each of the years ending June 30, 2023 and 2022. The straight-line method is used to amortize discounts over the life of the mortgages, which are reported as mortgage interest income. Because the mortgages are collateralized by the property sold, management has elected not to record an allowance for bad debts.

Mortgages receivable at June 30, 2023 and 2022 are as follows:

	2023	2022
Mortgages receivable at face value	\$ 2,747,166	\$ 2,945,098
Less unamortized discount	(1,608,198)	(1,705,704)
Net mortgage receivable	<u>\$ 1,138,968</u>	<u>\$ 1,239,394</u>

The above net mortgages receivable are shown on the Statements of Financial Position as follows:

	2023	2022
Current portion	\$ 133,645	\$ 166,448
Non-current portion	1,005,323	1,072,946
Net mortgages receivable	<u>\$ 1,138,968</u>	<u>\$ 1,239,394</u>

The current portion of mortgages receivable was based on principal payments that will be received in the next twelve months.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes receivable

Notes receivable are recorded at the gross amount of the payments to be received over the lives of the receivable ranging from three to ten years. Habitat for Humanity International publishes a discount rate yearly on June 30 for Affiliates to reference in computing mortgage discounts based on prevailing market rates for low-income housing at inception. These rates were used in computing discounts on notes receivable at inception. For the year ended June 30, 2023 and 2022, the discount rate was 7.85% and 7.49%, respectively; there were nine and thirteen new notes issued in each of the years ended June 30, 2023 and 2022, respectively. The straight-line method is used to amortize discounts over the life of the notes receivable, which are reported as interest income. The loans are subject to certain reductions not to exceed 10% if all terms of the loan are timely met.

Notes receivable at June 30, 2023 and 2022 are as follows:

	2023	2022
Notes receivable at face value	\$ 304,261	\$ 253,773
Less unamortized discount	(92,320)	(72,151)
Net notes receivable	<u>\$ 211,941</u>	<u>\$ 181,622</u>

The above net notes receivable are shown on the Statement of Financial Position as follows:

	2023	2022
Current portion	\$ 46,868	\$ 30,536
Non-current portion	165,073	151,086
Net notes receivable	<u>\$ 211,941</u>	<u>\$ 181,622</u>

The current portion of notes receivable was based on principal payments that will be received in the next twelve months.

Income taxes

The Organization qualifies as a tax-exempt non-profit organization under Section 501(c)(3) of the Internal Revenue Code, and therefore has no provision for income taxes.

Under the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the taxing authorities. As of June 30, 2023 and 2022, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. The amount of advertising expensed for the year ended June 30, 2023 and 2022 was \$14,910 and \$123,884, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures of the financial statements. Actual results could differ from those estimates.

Functional allocation of expenses

The Organization's primary programs are Community Building, Roof & Repair programs, and the ReStore thrift shop. Organizational expenses are divided by these programs. The Organization's volunteer engagement, financial literacy program, youth outreach, youth workforce development and social service referrals are incurred in support of these primary activities. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Equipment and supplies	Time and effort
Meetings, travel and training	Time and effort
Depreciation	Square footage
Utilities and occupancy	Square footage
Insurance	Square footage
Other expenses	Time and effort

New accounting standards

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in ASU 2016-02, *Leases*. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. As a result of the adoption of the guidance, the Organization recognized as of June 30, 2023 (a) lease liabilities of \$6,092 which represents the present value of the remaining lease payments discounted using the Organization's incremental borrowing rate of 4.75%, and (b) right-of-use assets of \$5,954 which represents the original lease liability adjusted for accumulated amortization. Right-of-use assets are recorded at the present value of the total lease payments. They are amortized using the straight-line method over the life of the lease.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

CASH

The Organization has concentrated its credit risk for cash by maintaining deposits in several financial institutions within the geographic region of the Eastern Shore of Maryland. Cash accounts and certificates of deposit with a federally insured bank are fully insured by FDIC, an agency of the Federal government, up to \$250,000. The Organization's cash balances in excess of this limit were \$23,012 and \$119,337 as of June 30, 2023 and June 30, 2022, respectively.

TRANSACTIONS WITH HABITAT INTERNATIONAL

Annually, the Organization remits ten percent of its ReStore profits and contributions, excluding in-kind contributions and contributions that have been restricted to Wicomico County by donors, to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, the Organization contributed \$0 and \$24,893, respectively, to Habitat International. This tithe is included under program service expenses in the Statement of Functional Expenses.

SPECIAL EVENTS

For the years ended June 30, 2023 and 2022 the Organization had several special events. The revenue and expenses for those events were as follows:

	2023			2022		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Chefs for Habitat	\$ 93,221	\$ 31,227	\$ 61,994	\$ 66,196	\$ 13,560	\$ 52,636
5K Run				2,909	531	2,378
Fall Appeal				123		123
Make a Difference day		928	(928)			
Giving Tuesday	8,788		8,788	21,130	57	21,073
Bordeleau	2,746	975	1,771			
Other	11,797	3,278	8,519	33	3,823	(3,790)
	<u>\$ 116,552</u>	<u>\$ 36,408</u>	<u>\$ 80,144</u>	<u>\$ 90,391</u>	<u>\$ 17,971</u>	<u>\$ 72,420</u>

RETIREMENT PLAN

The Organization has a 401(k) plan whereby after 90 days of employment, employees may elect a payroll deduction towards this self-directed 401(k) retirement plan. The Organization does not match employee contributions.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

COMMUNITY FOUNDATION FUNDS

The Organization has an Endowment Fund at the Community Foundation of the Eastern Shore, Inc. (a non-profit charitable foundation). This fund is considered an asset of the Foundation and is not set up as an asset of the Organization based on the agreement with the Community Foundation which gives the Foundation a variance power over the Fund. The Organization can receive an annual income based on guidelines as outlined in the agreement. The balance of the fund at June 30, 2023 and 2022 was \$61,242 and \$53,512, respectively. The balance available to the Organization to draw on (income available for grants) was \$9,027 and \$6,410 as of June 30, 2023 and 2022, respectively. The Organization didn't draw any grants in fiscal year 2023 or 2022. Any funds drawn are recognized as contribution income in the Statements of Activities.

ESCROW DEPOSITS/RESTRICTED CASH

Escrow deposits are the amounts held on behalf of a local organization for short-term repair projects and amounts collected from the borrowers for the homeowners' insurance and real estate taxes. Amounts from borrowers are included with the borrowers required monthly mortgage payment, are kept in separate bank accounts and are used to pay insurance and real estate taxes when due. At June 30, 2023 and 2022, escrow deposits and related restricted cash totaled \$63,074 and \$52,230, respectively. The following table provides a reconciliation of cash and restricted cash reported within the Statement of Financial Position that sum to the total of the same such amounts shown in the Statements of Cash Flows for the years ended June 30, 2023 and 2022:

	2023	2022
Cash	\$ 840,365	\$ 528,942
Restricted cash included in non-current assets	63,074	52,230
Total cash and restricted cash shown in the Statements of Cash Flows	<u>\$ 903,439</u>	<u>\$ 581,172</u>

LINE OF CREDIT

The Organization obtained a line of credit with Hebron Savings Bank in May 2021 with an available credit of \$54,000 and a 4.75% interest rate. Interest on any borrowing against this line of credit is due the 1st of each month. This line of credit was paid off in full in September 2021, and was still available to be drawn upon as of June 30, 2023.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

REPORTING OF INVESTMENT RETURNS

The Organization did not have any stock investments as of June 30, 2023 and 2022. During the year ended June 30, 2019, a stock account was opened at Morgan Stanley so that donors who wished to donate stock to the Organization would be able to do so. Stocks donated are immediately sold and designated to the program the donor advised.

CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2023</u>	<u>2022</u>
ReStore inventory items	\$ 564,260	\$ 520,672
Materials	667	109,934
Vehicles	12,500	
Services	169,900	168,440
	<u>\$ 747,327</u>	<u>\$ 799,046</u>

The Organization recognized contributed nonfinancial assets within revenue, including contributed ReStore inventory items, materials, vehicles and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

NOTE PAYABLE

In March 2022, the Organization assumed a loan with a total principal balance of \$43,000 at a fixed borrowing rate of 5.00%. The life on this loan is five years with monthly payments of principal and interest due in the amount of \$811. The note payable is secured by two vehicles, with an original cost of \$47,616, for which it was used to acquire. Future minimum principal payments are as follows:

Year ending June 30,	
2024	\$ 8,262
2025	8,685
2026	9,130
2027	6,310
	<u>\$ 32,387</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

MORTGAGE PAYABLE

In August 2009, the Organization assumed a mortgage loan with a total principal balance of \$328,500 at a fixed borrowing rate of 6.75%. This loan was modified on March 14, 2016 with a new borrowing rate of 4.95% with a maturity date of August 14, 2039 and monthly payments of principal and interest due in the amount of \$1,773. This loan was refinanced in May 2021 with a total principal balance of \$322,000 at a fixed borrowing rate of 4.5% with a maturity date of May 25, 2041. Monthly payments of principal and interest are due in the amount of \$2,038. The mortgage is secured by the Organization's property at 908 West Isabella Street, Salisbury, MD 21801. As of June 30, 2023, the outstanding balance on this loan was \$300,105.

In February 2022, the Organization assumed a mortgage loan with a total principal balance of \$700,000 with a maturity date of February 8, 2025. Monthly interest payments are due in the amount of \$2,115. The terms of the loan require interest only payments until maturity, at which time all outstanding principal is due. The mortgage is secured by six properties purchased during the year ended June 30, 2022, with three located at Wailes Street and three located at Records Street, both in Salisbury, MD. These properties are to be renovated and rehabilitated by the Organization and then resold. During the year ended June 30, 2023, the 216 Records Street property was sold, and as a result, the associated portion of this loan was reduced. As of June 30, 2023, the outstanding balance on the loan was \$587,710.

In October 2022, the Organization assumed a mortgage loan with a total principal balance \$675,000, of which \$450,000 was drawn at origination, with a maturity date of October 14, 2032. Monthly interest payments of \$2,034 are due for the first twelve months of the loan, and thereafter payments increase to \$4,076. The mortgage is secured by the Organization's property at 105 N. Dulany Ave, Fruitland, MD 21826. The terms of the loan require that all remaining outstanding principal is due on demand as of the date of maturity. As of the June 30, 2023, the outstanding balance on the loan was \$449,667.

Future minimum principal payments are as follows:

Year ending June 30,	
2024	\$ 37,379
2025	617,401
2026	40,512
2027	42,596
2028	44,756
Thereafter	554,838
	<u>\$ 1,337,482</u>

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

OPERATING LEASE PAYABLE

Changes in the operating lease payable for the year ended June 30, 2023 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Operating lease payable	\$	\$ 7,442	\$ (1,350)	\$ 6,092	\$ 1,416

The Organization has an operating lease for a copier machine. This lease has a remaining term of 48 months and will renew on a month-to-month basis following the end of the lease term if the equipment is not timely returned to the lessor. As of June 30, 2023, total operating leases payable were \$6,092, which represents the present value of the remaining lease payments of \$7,442, discounted using the Organization's incremental borrowing rate of 4.75%. The weighted average remaining lease term is 4 years. Following are the principal and interest requirements through maturity of the operating lease payable for each of the four subsequent years:

Year ended June 30,	Principal	Interest	Total
2024	\$ 1,416	\$ 259	\$ 1,675
2025	1,485	190	1,675
2026	1,557	118	1,675
2027	1,634	42	1,676
	<u>\$ 6,092</u>	<u>\$ 609</u>	<u>\$ 6,701</u>

NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets include funds received from the Neighborhood Revitalization Initiative ("NRI") which was created by Habitat International in 2013 to address home repair needs for low income homeowners. This program was renamed "Roof and Repair Program" by the Organization for marketing purposes, and to clarify to the public what the program was and how it would benefit them. During the year ended June 30, 2023, a new category of donor restricted net assets was established related to the Organization's new office/warehouse space at 105 N. Dulany Avenue. Various contributions and grants were received during the year ended June 30, 2023 that were restricted towards the rehabilitation and renovation of this new property.

During the year ended June 30, 2023, releases from restriction included \$205,360 of NRI funds expended on roof and repair projects, and \$12,742 of funds expended on rehabilitation costs for 105 N. Dulany Avenue. As of June 30, 2023, net assets with donor restrictions for specific purpose consisted of \$361,480 for NRI projects and \$358,860 for the renovation of 105 N. Dulany Avenue.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

AVAILABILITY AND LIQUIDITY

The following represents Habitat for Humanity of Wicomico County, Inc.'s financial assets as of June 30,:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash	\$ 903,439	\$ 581,172
Accounts receivable	1,569	33,903
Grants receivable	155,644	13,727
Mortgages and notes receivable	1,350,908	1,421,016
Total financial assets	<u>2,411,560</u>	<u>2,049,818</u>
Less amounts not available to be used for general expenditures:		
Restricted cash for escrow deposits held	63,074	52,230
Net assets with donor restrictions	720,340	147,330
Long-term portion of mortgages and notes receivable	1,126,756	1,224,032
	<u>1,910,170</u>	<u>1,423,592</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 501,390</u>	<u>\$ 626,226</u>

The Organization manages its cash available to meet general expenditures by adopting and operating within an annual budget approved by the Board of Directors.

Habitat International suggests its affiliated organizations maintain financial assets to meet 60 days of operating expenses, but Habitat for Humanity of Wicomico County, Inc.'s goal is to maintain six months (approximately \$323,000). As part of its liquidity plan, excess cash is invested in short-term investments, including savings or money market accounts at various financial institutions. The Organization also has a \$54,000 line of credit available to meet cash flow needs when necessary.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2023, the date the financial statements were available to be issued.

HABITAT FOR HUMANITY OF WICOMICO COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

REAL ESTATE INVESTMENTS

The Organization has investments in mortgage receivables and real estate, all of which are located in Salisbury, MD. The Organization does not have any cash or cash equivalents invested in stocks or public equities. There are currently 36 mortgage liens on properties previously sold by the Organization. The mortgages are recorded in land records at zero percent interest. The discount interest rate as of June 30, 2023 is 7.49% as provided by Habitat International. The real estate holdings are as follows:

908 W. Isabella Street	Office and location of the ReStore Thrift Shop
714 Grace Street	Vacant lot – future site of affordable housing
716 Grace Street	Vacant lot – future site of affordable housing
317 Naylor Street	Vacant lot – future site of affordable housing
601 Dawn Court	Home purchased May 2023 – to be sold in FY24
609 Dawn Court	Vacant lot – future site of affordable housing
611 Dawn Court	Vacant lot – future site of affordable housing
312 Martin Street	Transitional housing rental – to become affordable housing FY24
319/321 Martin Street	Home completed July 2023, to be sold in FY24
25518 Elsey Brown Loop	Vacant lot – future site of affordable housing
Lot 18C Christopher Street	Vacant lot – future site of affordable housing
Lot 18B Christopher Street	Vacant lot – future site of affordable housing
202 Records Street	Construction in process – rehab to be sold in FY24
205 Records Street	Construction in process – rehab to be sold in FY24
525 Wailes Street	Construction in process – rehab to be sold in FY24
529 Wailes Street	Construction in process – rehab to be sold in FY24
531 Wailes Street	Construction in process – rehab to be sold in FY24
701 E. Church Street	Home purchased May 2023 – to be sold in FY24
202 Linwood Street	Home acquired February 2023 by deed in lieu of foreclosure – to be sold in FY25

EMERGENCY RENTAL ASSISTANCE PROGRAM

During the year ended June 30, 2021, the Organization partnered with Wicomico County to facilitate the Emergency Rental Assistance Program. This program assisted individuals and families within the community who were negatively affected by COVID-19 and continued into the years ended June 30, 2022 and 2023. Assistance was provided to eligible applicants to prevent evictions from rentals and provide utility assistance. Total expended was \$1,239,878 and \$4,398,316 during the years ended June 30, 2023 and 2022, respectively, all of which was funded by grants and specific donor contributions. All remaining Emergency Rental Assistance Program funds were fully expended during the year ended June 30, 2023.

GOVERNMENT AUDITING STANDARDS REPORT

**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***

ANDREW M. HAYNIE, CPA
 SUSAN P. KEEN, CPA
 MICHAEL C. KLEGER, CPA
 JAMES D. MAYBURY, CPA
 E. LEE McCABE, CPA
 JEFFREY A. MICHALIK, CPA
 ROBERT L. MOORE, CPA
 DANIEL M. O'CONNELL II, CPA
 ASHLEY M. STERN, CPA
 JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
 P.O. Box 72
 SALISBURY, MD 21803
 TEL: 410.546.5600
 FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY
 SUITE 800
 OCEAN CITY, MD 21842
 TEL: 410.213.7185
 FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD
 SUITE 1
 P.O. Box 192
 LEWES, DE 19958
 TEL: 302.645.5757
 FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
 CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
 CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

To the Board of Directors
 Habitat for Humanity of Wicomico County, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Wicomico County, Inc., which comprise the statements 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, and have issued our report thereon dated December 8, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Wicomico County, Inc.'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 for Humanity of Wicomico County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Wicomico County, Inc.'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.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting 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 for Humanity of Wicomico County, Inc.'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 financial statements. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 8, 2023