

Habitat for Humanity of Greater Memphis, Inc.

Independent Auditor's Report, Financial Statements and Other Financial Information

June 30, 2022 and 2021



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Board of Directors

Jonathan Hardin, Board Chair
David Perry, Board Vice Chair
Gerre Currie, Treasurer
John Stemmler, Secretary
Angelia Allen, Member-At-Large
Taylor Bachelor
Angelique Gray
David Bradford
Austin Burress
J. Ford Canale
Tom Faller
Ruby Fenton
Tracy Houston
Jennifer Mason
Larry Netter
Leslie Shankman-Cohn
Greg Snook
Alex Turley

Management Officials

Dwayne Spencer, President/CEO
Steve Waring, Chief Financial Officer

Independent Auditor's Report

Board of Directors
Habitat for Humanity of Greater Memphis, Inc.
Memphis, TN

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Greater Memphis, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2022 and 2021, and the respective changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements were 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 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.

FORVIS

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 the Organization'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 the Organization'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 Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of the Board of Directors and Management Officials but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS,LLP

**Memphis, TN
January 24, 2023**

Habitat for Humanity of Greater Memphis, Inc.
Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,513,366	\$ 1,978,250
Cash - restricted	163,870	130,703
Cash held in escrow	384,604	386,514
Accounts receivable, net	3,115,926	1,521,471
Mortgages receivable - current portion, net	376,958	375,533
Pledges receivable - related party	-	106
Inventory	46,551	39,530
Completed homes available for sale	152,068	60,317
Construction-in-process, land and repossessed homes	4,473,866	1,962,734
Prepaid expenses	7,164	7,140
Total current assets	18,234,373	6,462,298
Mortgages receivable - less current portion, net	2,891,293	2,832,368
Investment in joint ventures (Note 6)	5,339,956	4,274,158
Property and equipment, net	84,045	54,135
Total assets	\$ 26,549,667	\$ 13,622,959
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 878,092	\$ 682,181
Deferred revenue	2,608,250	144,146
Escrow and deposits	464,904	442,364
Note payable - SBA Paycheck Protection Program	-	531,972
Notes payable - current portion	167,311	173,950
Total current liabilities	4,118,557	1,974,613
HFHI NMTC Sub-CDE I, LLC Debt (Notes 6 & 8), net	1,254,059	1,246,260
HFHI NMTC Leverage Lender 2016-1 LLC debt (Notes 6 & 8), net	3,125,007	3,094,474
Harbor Community Fund XXII, LLC debt (Notes 6 & 8), net	1,329,417	1,301,370
HFHI NMTC Sub-CDE IV and V, LLC Debt (Notes 6 & 8), net	1,269,659	-
Long-term notes payable, less current portion	1,900,388	2,019,160
Total liabilities	12,997,087	9,635,877
Net assets:		
Without donor restrictions	9,547,267	2,402,861
With donor restrictions	4,005,313	1,584,221
Total net assets	13,552,580	3,987,082
Total liabilities and net assets	\$ 26,549,667	\$ 13,622,959

See accompanying notes.

Habitat for Humanity of Greater Memphis, Inc.
Statement of Activities
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Support:			
Grants	\$ 4,249,719	\$ -	\$ 4,249,719
Contributions	9,218,350	2,762,060	11,980,410
Total support	<u>13,468,069</u>	<u>2,762,060</u>	<u>16,230,129</u>
Revenue:			
Home sales, net	807,791	-	807,791
ReStore sales	2,138,266	-	2,138,266
Gain on forgiveness of PPP loan	531,972	-	531,972
Other	697,113	-	697,113
Total revenue	<u>4,175,142</u>	<u>-</u>	<u>4,175,142</u>
Net assets released from restrictions	<u>340,968</u>	<u>(340,968)</u>	<u>-</u>
Total support and revenue	<u>17,984,179</u>	<u>2,421,092</u>	<u>20,405,271</u>
Expenses:			
Program services:			
Construction and other programs	9,160,995	-	9,160,995
Support services:			
General and administrative	844,133	-	844,133
Fundraising	834,645	-	834,645
Total expenses	<u>10,839,773</u>	<u>-</u>	<u>10,839,773</u>
Change in net assets	7,144,406	2,421,092	9,565,498
Net assets, beginning of year	<u>2,402,861</u>	<u>1,584,221</u>	<u>3,987,082</u>
Net assets, end of year	<u>\$ 9,547,267</u>	<u>\$ 4,005,313</u>	<u>\$ 13,552,580</u>

See accompanying notes.

Habitat for Humanity of Greater Memphis, Inc.
Statement of Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Support:			
Grants	\$ 2,817,248	\$ -	\$ 2,817,248
Contributions	5,319,141	226,486	5,545,627
Special events	14,860	-	14,860
Total support	<u>8,151,249</u>	<u>226,486</u>	<u>8,377,735</u>
Revenue:			
Home sales, net	1,378,017	-	1,378,017
ReStore sales	1,131,244	-	1,131,244
Other	1,465,733	-	1,465,733
Total revenue	<u>3,974,994</u>	<u>-</u>	<u>3,974,994</u>
Net assets released from restrictions	<u>246,664</u>	<u>(246,664)</u>	<u>-</u>
Total support and revenue	<u>12,372,907</u>	<u>(20,178)</u>	<u>12,352,729</u>
Expenses:			
Program services:			
Construction and other programs	8,738,146	-	8,738,146
Support services:			
General and administrative	757,949	-	757,949
Fundraising	844,263	-	844,263
Total expenses	<u>10,340,358</u>	<u>-</u>	<u>10,340,358</u>
Change in net assets	2,032,549	(20,178)	2,012,371
Net assets, beginning of year	<u>370,312</u>	<u>1,604,399</u>	<u>1,974,711</u>
Net assets, end of year	<u>\$ 2,402,861</u>	<u>\$ 1,584,221</u>	<u>\$ 3,987,082</u>

Habitat for Humanity of Greater Memphis, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022

	Construction and Other Programs	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 1,919,014	\$ 177,626	\$ 520,061	\$ 2,616,701
Payroll taxes	123,355	42,468	24,182	190,005
Total personnel	2,042,369	220,094	544,243	2,806,706
Advertising and public relations	4,329	-	29,541	33,870
Bank charges	42,245	45,470	-	87,715
Benefits	27,521	15,634	5,780	48,935
Construction costs	5,545,610	-	122	5,545,732
Contract labor	93,514	-	-	93,514
Cost of events	58,701	1,387	31,628	91,716
Donation and tithe	-	225,000	-	225,000
Dues and subscriptions	7,479	13,465	12,666	33,610
Employee recruitment	244	-	98	342
Information technology	20,251	17,598	6,994	44,843
Insurance	329,301	75,305	83,118	487,724
Interest	79,109	96,679	-	175,788
Maintenance and repairs	35,464	3,405	1,909	40,778
Miscellaneous	15,269	1,387	17,537	34,193
Postage	18,440	430	1,296	20,166
Printing	7,847	244	14,282	22,373
Professional fees	59,269	60,845	4,802	124,916
Rent	241,700	13,200	31,241	286,141
Supplies and tools	62,785	3,564	6,287	72,636
Taxes and permits	197,812	20	24	197,856
Telephone and internet	15,588	7,593	3,304	26,485
Training and workshops	7,171	5,966	3,816	16,953
Travel	43,043	33,505	30,222	106,770
Utilities	57,606	2,737	5,474	65,817
Vehicles	76,169	605	261	77,035
Weed cutting	48,235	-	-	48,235
Total expenses before depreciation	9,137,071	844,133	834,645	10,815,849
Depreciation	23,924	-	-	23,924
Total expenses	<u>\$ 9,160,995</u>	<u>\$ 844,133</u>	<u>\$ 834,645</u>	<u>\$ 10,839,773</u>

See accompanying notes.

Habitat for Humanity of Greater Memphis, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	Construction and Other Programs	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 1,688,475	\$ 178,955	\$ 518,599	\$ 2,386,029
Payroll taxes	106,884	42,161	24,333	173,378
 Total personnel	 1,795,359	 221,116	 542,932	 2,559,407
Advertising and public relations	5,480	-	34,085	39,565
Bank charges	22,666	42,881	75	65,622
Benefits	29,164	17,577	5,671	52,412
Construction costs	5,689,281	-	95	5,689,376
Contract labor	1,443	-	-	1,443
Cost of events	69,035	1,460	39,168	109,663
Donation and tithe	-	126,600	-	126,600
Dues and subscriptions	6,690	8,709	6,656	22,055
Information technology	15,801	18,406	2,842	37,049
Insurance	311,922	71,481	71,722	455,125
Interest	76,478	140,205	-	216,683
Maintenance and repairs	22,660	3,428	3,100	29,188
Miscellaneous	112,176	3,664	70,457	186,297
Postage	1,848	422	1,190	3,460
Printing	5,799	54	14,910	20,763
Professional fees	93,756	58,909	7,798	160,463
Rent	200,747	13,286	28,527	242,560
Supplies and tools	7,370	8,958	2,905	19,233
Taxes and permits	93,751	1,829	80	95,660
Telephone and internet	10,310	9,399	2,566	22,275
Training and workshops	2,440	6,171	3,509	12,120
Travel	7,949	1,374	1,025	10,348
Utilities	50,229	2,174	4,748	57,151
Vehicles	43,356	(154)	202	43,404
Weed cutting	16,255	-	-	16,255
 Total expenses before depreciation	 8,691,965	 757,949	 844,263	 10,294,177
Depreciation	46,181	-	-	46,181
 Total expenses	 \$ 8,738,146	 \$ 757,949	 \$ 844,263	 \$ 10,340,358

See accompanying notes.

Habitat for Humanity of Greater Memphis, Inc.
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 9,565,498	\$ 2,012,371
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	23,924	46,181
Amortization of discount on mortgages receivable	(270,081)	(274,722)
Present value discount on notes payable	84,019	(4,374)
Amortization of closing costs	31,060	29,596
Forgiveness of PPP loan	(531,972)	-
Equity in earnings of joint ventures	-	(7,553)
Allowance for mortgages receivable	-	47,365
Recoveries on repossessed homes	-	(14,596)
Loss on sale of completed homes	220,031	390,287
Gain on the sale of property and equipment	(8,000)	-
Gain on the sale of mortgage receivables	(450,892)	(1,177,622)
Sale of foreclosed homes	68,634	43,788
Changes in assets and liabilities:		
Cash held in escrow	1,910	(22,532)
Grants and accounts receivable	(1,594,455)	(1,092,288)
Mortgages receivable	1,159,922	1,863,822
Pledges receivable - related party	106	250
Inventory	(7,021)	(3,604)
Construction-in-process, land and repossessed homes	(4,144,415)	(3,004,663)
Prepaid expenses	(24)	400
Accounts payable, accrued expenses and deferred revenue	2,701,114	(120,126)
Escrow and deposits	22,540	32,889
Total adjustments	(2,693,600)	(3,267,502)
Net cash provided by (used in) operating activities	6,871,898	(1,255,131)

Habitat for Humanity of Greater Memphis, Inc.
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

(Continued)

	2022	2021
Cash flows from investing activities:		
Investment in joint venture	(336,473)	-
Proceeds from sale of mortgage receivables	753,568	1,992,055
Proceeds from the sale of property and equipment	8,000	-
Purchase of property and equipment	(53,834)	-
Net cash provided by investing activities	371,261	1,992,055
Cash flows from financing activities:		
Loan costs	(177,844)	-
Borrowings on notes payable and line of credit	900,000	441,094
Repayments on notes payable and line of credit	(1,109,430)	(1,271,711)
Loan proceeds from HFHI NMTC Sub-CDE IV and V, LLC debt	712,398	-
Net cash provided by (used in) financing activities	325,124	(830,617)
Net change in cash and cash equivalents	7,568,283	(93,693)
Cash and cash equivalents (including restricted cash), beginning of year	2,108,953	2,202,646
Cash and cash equivalents (including restricted cash), end of year	\$ 9,677,236	\$ 2,108,953
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 144,729	\$ 193,989
Schedule of noncash operating transactions:		
Transfer of homes for mortgages receivables	\$ 1,472,918	\$ 2,825,715
Schedule of noncash financing transactions:		
Construction in progress contributed to NMTC VI for note payable	\$ 729,325	\$ -

See accompanying notes.

Notes to Financial Statements

1. Organization

Habitat for Humanity of Greater Memphis, Inc. (the "Organization"), is a not-for-profit voluntary health and welfare agency established to provide low-income families a means of owning a home. The Organization is supported by donations from the community, government grants, and sales from the ReStore. The ReStore is a retail operation where home furnishings, appliances, and other miscellaneous items are donated from the community or purchased at discount and then resold at a greatly reduced price.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset 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 board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby donor has stipulated the funds to be maintained in perpetuity.

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 statement of activities.

Estimates

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Revenue recognition

The Organization receives support from private contributions and grants, and recognizes this support when cash or an unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions and grants recognized are recorded as net assets without donor restrictions or net assets with donor restrictions depending upon the existence and/or nature of any donor restrictions.

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements

All donor-restricted support is 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. Support that has donor restrictions is reported as an increase in net assets without donor restrictions if the restrictions are met in the same reporting period the contribution is made or conditions are substantially met.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Adjustments to the fair value of investments are recognized in the statement of activities as net assets without donor restrictions or net assets with donor restrictions as stipulated by the donor.

The value of donated materials and land is recorded at fair value at the date of the gift.

Home sales are transfers to homeowners in exchange for a non-interest bearing mortgage receivable. The non-interest mortgages are discounted at various rates based upon prevailing market rates at the inception of the mortgages. Discounts are amortized over the lives of the mortgages.

Restore revenue is recognized when performance obligations are satisfied under the terms of a contract with a customer, in an amount representing the consideration the Organization expects to receive in exchange for selling the products to its customers. The Organization's performance obligations are satisfied at a point in time upon purchase by the customer.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$33,870 and \$39,566 for the years ended June 30, 2022 and 2021, respectively.

Concentration of credit risk

The mortgage notes are collateralized by real property, and transfers to homeowners are based on actual construction costs, which, in certain instances, are very favorable due to donated labor. The homeowners who are extended credit are low-income families.

The Organization maintains bank deposit accounts, which, at times, exceed federally insured limits.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased.

Cash - restricted

Restricted cash represents cash received as a result of the New Market Tax Credit Program and will be used to pay future program expenses. See Note 6 for further discussion.

Construction-in-process, land and repossessed homes

Construction-in-process represents those houses which are currently under construction. Land consists of land and improvements to be utilized as lots for future homeowners. Repossessed homes consist of foreclosed and uninhabited houses that are available for future homeowners. Purchased land and materials for the construction of houses are recorded at cost and costs incurred to improve land are capitalized when incurred. Repossessed homes are recorded at the outstanding mortgage balance at the date of reclamation. Overhead and administration expenses of the Organization's home construction are included in program services construction expenses.

Periodically the Organization reviews the carrying value of purchased or donated land and repossessed homes, and records any impairment charges necessary to reflect a decrease in the land's or repossessed home's fair value.

Inventory

For the ReStore operations, contributed inventory is not recorded as contribution revenue due to the uncertainty of its ultimate value. Purchased inventory is valued at the lower of cost or net realizable value with cost being determined using the first-in, first-out ("FIFO") method.

Investment in joint ventures

The Organization invests in joint ventures with other Habitat affiliates to take advantage of New Market Tax Credits. The investments are recorded on the equity method. See Note 6 for further discussion.

Accounts receivable

The Organization records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded when needed based upon management's estimate of uncollectible accounts, determined by analysis of specific customer accounts. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The allowance for doubtful accounts at June 30, 2022 and 2021 was \$95,386 and \$74,127, respectively. The Organization does not recognize interest income on outstanding accounts receivable.

Taxes collected from customers and remitted to governmental authorities

The Organization records revenues for the ReStore gross of any applicable sales, occupancy, and other related revenue transaction taxes. These taxes are included in construction and other programs expense on the statement of activities.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is similarly exempt from Tennessee state income taxes under provision of the Tennessee tax regulations. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization has been determined not to be a private foundation under Section 509(a) of the IRC. The Organization has determined that it does not have any material uncertain tax positions as of June 30, 2022 or 2021, and there are no interest and penalties related to income tax assessments.

Property and equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of the gift, if donated. Asset improvements and repairs that significantly extend the life of an asset are capitalized. The costs of maintenance and repairs are charged to expense as incurred. Depreciation amounted to \$23,924 and \$46,181 for the years ended June 30, 2022 and 2021, respectively, and was computed using the straight-line method over the respective assets' estimated useful lives, which range from 5 to 15 years.

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements

Property and equipment as of June 30 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 326,293	\$ 289,473
Furniture and equipment	227,275	210,261
Automobiles	<u>138,327</u>	<u>194,167</u>
	691,895	693,901
Accumulated depreciation	<u>(607,850)</u>	<u>(639,766)</u>
	<u>\$ 84,045</u>	<u>\$ 54,135</u>

Functional allocation of expenses

The costs of providing the various programs and activities of the Organization have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on square footage or time and effort as appropriate.

In-kind services

A substantial number of volunteers have made significant contributions of their time to the Organization. The value of contributed services meeting the requirements for recognition in the financial statements is not material and has not been recorded.

New accounting standards

The FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize on their statement of financial position all lease contracts with lease terms greater than 12 months, including operating leases. Specifically, lessees are required to recognize on the statement of financial position at lease commencement both a right-of-use, representing the lessee's right to use the leased asset over the term of the lease, and a lease liability, representing the lessee's contractual obligation to make lease payments over the term of the lease. The new lease standard requires lessees to classify leases as operating or finance leases, which are similar to the current operating and capital lease classifications. However, the distinction between these two classifications under the new standard does not relate to statement of financial position treatment, but relates to treatment and recognition in the statements of income and cash flows. The effective date of the amendment is for annual reporting periods beginning after December 15, 2021.

Subsequent events

The Organization evaluated the effect subsequent events would have on the financial statements through January 24, 2023, which is the date the financial statements were available to be issued.

3. Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents, including restricted cash and cash held in escrow	\$ 10,061,840	\$ 2,495,467
Accounts receivable, net	3,115,926	1,521,471
Mortgage receivable, net	376,958	375,533
Pledge receivable, net	<u>-</u>	<u>106</u>
Total financial assets	13,554,724	4,392,577
Less amounts not available to be used within one year:		
Net assets with donor restrictions	4,005,313	1,584,221
Net assets with restrictions related to long-term assets	(1,063,571)	(1,147,590)
Net assets with purpose restrictions to be met in less than a year	(1,412,060)	(113,920)
Restricted cash and cash held in escrow	<u>548,474</u>	<u>517,217</u>
	<u>2,078,156</u>	<u>839,928</u>
Financial assets available to be used within one year	<u>\$ 11,476,568</u>	<u>\$ 3,552,649</u>

The Organization's principal source of revenue is derived from contributions from individuals for the construction of homes.

The Organization maintains two lines of credit with First Horizon Bank and Iberia Bank of \$975,000 and \$1,000,000, respectively. As of June 30, 2022, \$975,000 and \$1,000,000 remained available on the Organization's First Horizon Bank and Iberia Bank lines of credit, respectively.

4. Mortgages Receivable and Cash Held in Escrow

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 7% to 9% for all loans outstanding. This method of accounting properly reflects the value of the mortgage loans receivable in the financial statements and recognizes interest income over the life of the loans.

Monthly payments include principal, taxes and insurance. Administration of the mortgages and tax and insurance escrow is handled by third parties. Amounts received for down payments, temporary occupancy agreements, rent escrow, taxes and insurance are maintained by the Organization in a separate bank account. The balance of that account at June 30, 2022 and 2021, was \$384,604 and \$386,514, respectively.

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The Organization has recorded an allowance for uncollectible mortgages receivable of \$208,511 as of June 30, 2022 and 2021.

Future scheduled mortgage payments are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2023	\$ 376,958
2024	361,405
2025	351,603
2026	340,000
2027	333,179
Thereafter	<u>5,374,313</u>
	7,137,458
Discount	(3,660,696)
Allowance for doubtful accounts	<u>(208,511)</u>
	<u>\$ 3,268,251</u>

5. Sale of Mortgage Receivables

Sales with recourse

The Organization enters into loan purchasing agreements with recourse to financial institutions. These transactions were accounted for as secured borrowings. Proceeds received from the loan purchase agreements with recourse totaled \$338,418 and \$238,138 for the years ending June 30, 2022 and 2021. The outstanding balances are reflected as notes payable due to Tennessee Housing Development. See Note 8.

Sales without recourse

The Organization accounts for certain transfers of financial assets without recourse as sales. The transfer accounted for as a sale includes an agreement to repurchase nonperforming loans before maturity at a fixed or determinable price that will be settled generally in cash. Also, the Organization retains substantially all of the exposure to the economic return on the asset. The Organization has recorded a contingent liability of \$12,500 for the potential repurchase of nonperforming loans at June 30, 2022.

The Organization received proceeds from the transfer of loans during 2022 and 2021 in the amount of \$753,568 and \$1,992,055, respectively, and recognized a gain of \$450,892 and \$1,177,662 related to these sales, which is included in other income.

6. Investment in Joint Venture and New Market Tax Credit Program

The Organization, along with other Habitat affiliates, is participating in a joint venture to take advantage of New Market Tax Credit ("NMTC") financing. The NMTC Program permits corporate and individual taxpayers to receive a credit against federal income taxes for making qualified equity investments in qualified community development entities ("CDE").

In July 2012, the Organization invested \$1,434,475 in the joint venture, CCML Leverage II, LLC, consisting of cash and qualified investment properties. This investment represents a 20% ownership in the joint venture. The joint venture contributed its combined resources to CCM CD 27 Investment Fund, LLC ("Investment Fund") which received additional investment from U.S. Bancorp Community Development Corporation ("Bank") as the federal tax credit investor under the NMTC Program.

As part of the NMTC Program, the Investment Fund invested in CCM Community Development XXVII, LLC, a qualified CDE. The CDE is the conduit for accomplishing the NMTC Program specifics of constructing and selling qualified housing properties to low-income residents. Under the CDE, the Organization was able to secure a 15-year loan in the amount of \$1,880,000 to be used solely in accordance with NMTC Program compliance requirements. The loan accrues interest only for years 1 through 7 at a rate of .76%. Beginning in year 8 through year 15 the principal balance of the loan is reduced by an eight-year amortization at the same rate of .76%. The Investment Fund may be subject to tax credit recapture if the NMTC Program compliance requirements are not met over a seven-year period.

The ultimate holder of the above loan from the CDE to the Organization is the Bank through its participation in the Investment Fund. In September 2019, the Bank waived the payment of the debt so as to participate in the NMTC Program via exercising its put option agreement. Under the terms of the put option agreement, the joint venture purchased the ownership interest of the Bank in the Investment Fund. Exercise of the option allowed the Organization to extinguish its outstanding debt owed to the Bank. The Organization recognized a gain of \$277,140 as a result of the cancelation of debt.

In December 2014, the Organization entered into a third NMTC Program similar to those noted above. With the new NMTC Program, the Organization invested \$911,557 in the joint venture, HFHI NMTC Sub-CDE I, LLC, consisting of cash and qualified investment properties. This investment represents a 23% ownership in the joint venture. Under the CDE, the Organization was able to secure a 30-year loan in the amount of \$1,322,898 to be used solely in accordance with NMTC Program compliance requirements. The loan accrues interest only for the years 1 through 10 at a rate of .69%. Beginning in year 11 through year 30 the principal balance of the loan is reduced by a twenty-year amortization at the same rate of .69%. The CDE also has the option to waive the debt in January 2022, so as to participate in the NMTC program as noted above.

In November 2017, the Organization entered into a fourth NMTC Program similar to those noted above. With the new NMTC Program, the Organization invested \$2,249,039 in the joint venture, HFHI NMTC Leverage Lender 2016-1, LLC, consisting of cash and qualified investment properties. The investment represents at 24% ownership in the joint venture. Under the CDE, the Organization was able to secure a 30-year loan in the amount of \$3,336,278 to be used solely in accordance with NMTC Program compliance requirements. The loan accrues interest only for the years 1 through 7 at a rate of .67%. Beginning in year 8 through year 30 the principal balance of the loan is reduced by a twenty-two year amortization at the same rate of .67%. The CDE also has the option to waive the debt in January 2025, so as to participate in the NMTC program as noted above.

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In June 2020, the Organization entered into a fifth NMTC Program similar to those noted above. With the new NMTC Program, the Organization invested \$1,111,838 in the joint venture, Harbor Habitat Leverage III, LLC, consisting of cash and qualified investment properties. The investment represents at 25% ownership in the joint venture. Under the CDE, the Organization was able to secure a 20-year loan in the amount of \$1,521,250 to be used solely in accordance with NMTC Program compliance requirements. The loan accrues interest only for the years 1 through 7 at a rate of .73%. Beginning in year 8 through year 30 the principal balance of the loan is reduced by a twelve year amortization at the same rate of .73%. The CDE also has the option to waive the debt in June 2027, so as to participate in the NMTC program as noted above.

In November 2021, the Organization entered into a sixth NMTC Program similar to those noted above. With the new NMTC Program, the Organization invested \$1,065,798 in the joint venture, HFHI NMTC Sub-CDE IV, LLC and HFHI NMTC Sub-CDE V, LLC, consisting of cash and qualified investment properties. The investment represents at 4.9% ownership in the joint venture. Under the CDE, the Organization was able to secure two 30-year loans in totaling of \$1,441,723 to be used solely in accordance with NMTC Program compliance requirements. The loans accrue interest only for the years 1 through 7 at a rate of .73%. Beginning in year 8 through year 30 the principal balance of the loans is reduced by a twenty three year amortization at the same rate of .73%. The CDE also has the option to waive the debt in November 2028, so as to participate in the NMTC program as noted above.

7. Lines of Credit

As of June 30, 2022, the Organization has two lines of credit with First Horizon Bank and Iberia bank of \$975,000 and \$1,000,000, respectively. The First Horizon Bank line of credit bears interest quarterly at the bank's prime rate (3.50% as of June 30, 2022) and expires on April 30, 2022. The Iberia Bank line of credit bears interest monthly at the bank's prime rate (3.25% as of June 30, 2022) and expires May 24, 2022. At June 30, 2022, the Organization had no outstanding borrowings under these lines of credit.

8. Notes Payable

Notes payable consists of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Notes payable to Tennessee Housing Development with imputed interest rates ranging from 3.25% to 8.25%, payable monthly, maturing at various times through 2049, collateralized by certain mortgages receivable with principal balances totaling \$3,131,270 and \$3,340,700 as of June 30, 2022 and 2021, respectively. Balances of \$3,131,270 and \$3,340,700 reduced by discounts of \$1,063,571 and \$1,147,590 as of June 30, 2022 and 2021, respectively.	\$ 2,067,699	\$ 2,193,110
Notes payable due to a CDE (Note 6) with semi-annual interest only payments until 2024 at .689%. Semi-annual payments of \$33,886 are due starting May 5, 2024 through the maturity date of November 5, 2044. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The CDE has the option to waive the debt in January 2024 so as to participate in the NMTC Program. Balance of \$1,322,898 is reduced by unamortized loan cost of \$68,839 and \$76,638 as of June 30, 2022 and 2021, respectively.	1,254,059	1,246,260

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Notes payable due to a CDE (Note 6) with semi-annual interest only payments until 2025 at .674%. Semi-annual payments of \$78,419 are due starting May 5, 2025 through the maturity date of November 2, 2047. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The CDE has the option to waive the debt in January 2025 so as to participate in the NMTC Program. Balance of \$3,336,278 is reduced by unamortized loan cost of \$211,271 and \$241,804 as of June 30, 2022 and 2021, respectively.

3,125,007 3,094,474

Notes payable due to a CDE (Note 6) with semi-annual interest only payments until 2027 at .731%. Semi-annual payments of \$61,440 are due starting December 5, 2027 through the maturity date of June 4, 2040. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The CDE has the option to waive the debt in June 2027 so as to participate in the NMTC Program. Balance of \$1,521,250 is reduced by unamortized loan costs of \$191,833 and \$219,880 as of June 30, 2022 and 2021, respectively.

1,329,417 1,301,370

Notes payable due to a CDE (Note 6) with semi-annual interest only payments until 2028 at .738%. Semi-annual payments of \$62,289 are due starting May 5, 2029 through the maturity date of November 9, 2051. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The CDE has the option to waive the debt in November 2028 so as to participate in the NMTC Program. Balance of \$1,441,723 is reduced by unamortized loan costs of \$172,064 as of June 30, 2022.

1,269,659 -

\$ 9,045,841 \$ 7,835,214

Future maturities of notes payables are as follows:

Year Ended
June 30,

2023	\$	167,311
2024		188,332
2025		282,229
2026		344,941
2027		343,141
Thereafter		<u>9,427,465</u>
		10,753,419
Discount		(1,063,571)
Debt issuance costs		<u>(644,007)</u>
Total	\$	<u>9,045,841</u>

9. Note Payable - SBA Paycheck Protection Program

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law on March 27, 2020. One provision of the CARES Act is the establishment of the Paycheck Protection Program (PPP) under the Small Business Administration’s 7(a) program. The PPP provides for loans to be made to small businesses and non-profits effected by the COVID-19 pandemic. If certain criteria are met, small businesses and non-profits receiving PPP loans may have all or a portion of the loans forgiven, effectively converting the outstanding loan balance and accrued interest to grant revenue. Any portion of the PPP loans not forgiven have a term of two years and bear interest at 1.0%, with repayments deferred for six months. In April 2020, the Organization received a PPP loan in the amount of \$531,972.

The Organization has accounted for the PPP loan as debt in accordance with ASC 470. Under the debt model, the liability is derecognized and a gain on extinguishment is recorded in the statement of net assets at the time of forgiveness. On July, 28, 2021, the Organization received notification from the SBA that the PPP loan had been forgiven. As a result, the Organization recognized the outstanding principal balance together with the related accrued interest as a gain on forgiveness of debt in the statement of activities.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2022</u>	<u>2021</u>
Home construction	\$ 2,475,631	\$ 1,261,616
Grants	<u>1,529,682</u>	<u>322,605</u>
	<u>\$ 4,005,313</u>	<u>\$ 1,584,221</u>

Net assets were released from net assets with donor restrictions by incurring expenses satisfying the restricted purposes as follows for June 30:

	<u>2022</u>	<u>2021</u>
Home construction	\$ 142,923	\$ 240,442
Grants	<u>198,045</u>	<u>6,222</u>
	<u>\$ 340,968</u>	<u>\$ 246,664</u>

11. Commitments and Contingencies

The Organization has been named a beneficiary along with five other charitable organizations of a trust with a living beneficiary. The Organization has not recorded this contribution in their revenue as the trustee can, at their discretion, withdraw all funds for the benefit of the living beneficiary. Therefore, the amount of funds, if any, that will be transferred to the Organization at the date that the trust is distributed is not known.

COVID-19 Pandemic

The COVID-19 pandemic has impacted and may continue to impact the Organization, including employees, partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time. In March 2020, the Organization temporarily closed the ReStore, stopped critical home repairs, and were forced to complete construction of new homes without the help of volunteers, all of which had a negative financial impact on the Organization for the year ended June 30, 2020. The Organization has since resumed critical home repairs and reopened the ReStore in June 2020. In 2021 and 2022, the Organization experienced supply shortages, delivery delays and a shortage of labor due to the continued impact of the pandemic. In order to combat supply shortages and delays, the Organization purchased available materials and supplies at higher premiums which increased the average cost of home sales. Additionally, volunteer engagement continued to be impacted by the pandemic. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

12. Leases

The Organization leases office and ReStore space and equipment through operating leases. The lease agreement includes rent escalation clauses to cover increases in the lessors' operating costs. Rent under the lease will be expensed using the straight-line method.

Future minimum rental payments including the lease renewal are as follows:

Year Ended June 30,	
2023	\$ 242,436
2024	242,436
2025	242,436
2026	<u>141,421</u>
	<u>\$ 868,729</u>

Rent expense was \$286,141 and \$242,560 for the years ended June 30, 2022 and 2021, respectively.