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# **Habitat for Humanity of Greater Memphis, Inc.**

**Independent Auditor's Report, Financial Statements,  
and Supplementary Information**

June 30, 2023 and 2022



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**Habitat for Humanity of Greater Memphis, Inc.**  
**Contents**  
**June 30, 2023 and 2022**

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**Habitat for Humanity of Greater Memphis, Inc.  
Board of Directors and Management Officials**

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**Board of Directors**

David Perry, Board Chair  
Gerre Currie, Board Vice Chair  
Leslie Shankman-Cohn, Treasurer  
Angelia Allen, Secretary  
David Bradford, Member-At-Large  
Austin Burress  
J. Ford Canale  
Tom Faller  
Jerome Franklin  
Michael Fulton  
Angelique Gray  
Alisa Haushalter  
Pat Lichterman Bates  
Jennifer Mason  
David Middleton  
Bill Stemmler  
John Stemmler  
Alex Turley

**Management Officials**

Dwayne Spencer, President/CEO  
Steve Waring, Chief Financial Officer  
Stacy Davis, Director of Finance and Accounting



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## Independent Auditor's Report

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

### **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, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of June 30, 2023 and 2022, 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") and 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 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.

### **Emphasis of Matter**

The Organization adopted Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842) as of July 1, 2022. Our opinion is not modified with respect to this matter.

### **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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

***Supplementary Information***

The Schedule of Expenditures of Federal Awards and State Financial Assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2024, on our consideration of the Organization'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 the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

**FORVIS,LLP**

**Memphis, Tennessee  
January 24, 2024**

**Habitat for Humanity of Greater Memphis, Inc.**  
**Statements of Financial Position**  
**June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,736,993	\$ 9,513,366
Cash - restricted	122,459	163,870
Cash held in escrow	432,914	384,604
Accounts receivable, net	3,869,545	3,115,926
Mortgages receivable - current portion, net	394,260	376,958
Inventory	68,935	46,551
Completed homes available for sale	309,711	152,068
Construction-in-process, land and repossessed homes	2,912,127	4,473,866
Prepaid expenses	10,633	7,164
	<u>13,857,577</u>	<u>18,234,373</u>
Total current assets	13,857,577	18,234,373
Mortgages receivable - less current portion, net	3,201,666	2,891,293
Investment in joint ventures (Note 6)	4,426,679	5,339,956
Property and equipment, net	291,618	84,045
Right of use asset - operating leases	2,090,081	-
	<u>2,090,081</u>	<u>-</u>
Total assets	<u>\$ 23,867,621</u>	<u>\$ 26,549,667</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 844,821	\$ 878,092
Deferred revenue	899,462	2,608,250
Escrow and deposits	527,357	464,904
Notes payable - current portion	156,211	167,311
Current portion of financing lease liability	21,947	-
Current portion of operating lease liability	255,737	-
	<u>2,705,535</u>	<u>4,118,557</u>
Total current liabilities	2,705,535	4,118,557
<b>Other Liabilities</b>		
HFHI NMTC Sub-CDE I, LLC Debt (Notes 6 & 8), net	-	1,254,059
HFHI NMTC Leverage Lender 2016-1 LLC debt (Notes 6 & 8), net	3,155,540	3,125,007
Harbor Community Fund XXII, LLC debt (Notes 6 & 8), net	1,357,462	1,329,417
HFHI NMTC Sub-CDE IV and V, LLC Debt (Notes 6 & 8), net	1,283,530	1,269,659
Financing lease liability, net of current portion	94,405	-
Operating lease liability, net of current portion	1,977,673	-
Long-term notes payable, less current portion	1,819,333	1,900,388
	<u>9,687,943</u>	<u>8,878,530</u>
Total other liabilities	9,687,943	8,878,530
Total liabilities	<u>12,393,478</u>	<u>12,997,087</u>
<b>Net Assets</b>		
Without donor restrictions	8,756,456	9,547,267
With donor restrictions	2,717,687	4,005,313
	<u>11,474,143</u>	<u>13,552,580</u>
Total net assets	11,474,143	13,552,580
Total liabilities and net assets	<u>\$ 23,867,621</u>	<u>\$ 26,549,667</u>

**Habitat for Humanity of Greater Memphis, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Revenue</b>			
Support			
Grants	\$ 4,351,473	\$ -	\$ 4,351,473
Contributions	1,650,575	662,530	2,313,105
	<u>6,002,048</u>	<u>662,530</u>	<u>6,664,578</u>
Revenue			
Home sales, net	2,364,728	-	2,364,728
ReStore sales	2,522,333	-	2,522,333
Other	3,024,181	-	3,024,181
	<u>7,911,242</u>	<u>-</u>	<u>7,911,242</u>
Net assets released from restrictions	<u>1,950,156</u>	<u>(1,950,156)</u>	<u>-</u>
	<u>15,863,446</u>	<u>(1,287,626)</u>	<u>14,575,820</u>
<b>Expenses</b>			
Program services			
Construction and other programs	14,123,817	-	14,123,817
Support services			
General and administrative	1,311,649	-	1,311,649
Fundraising	1,218,791	-	1,218,791
	<u>16,654,257</u>	<u>-</u>	<u>16,654,257</u>
<b>Change in Net Assets</b>	(790,811)	(1,287,626)	(2,078,437)
<b>Net Assets, Beginning of Year</b>	<u>9,547,267</u>	<u>4,005,313</u>	<u>13,552,580</u>
<b>Net Assets, End of Year</b>	<u>\$ 8,756,456</u>	<u>\$ 2,717,687</u>	<u>\$ 11,474,143</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Support and Revenue</b>			
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 of 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>
<b>Expenses</b>			
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 before modification of restrictions	<u>7,144,406</u>	<u>2,421,092</u>	<u>9,565,498</u>
<b>Change in Net Assets</b>	<u>7,144,406</u>	<u>2,421,092</u>	<u>9,565,498</u>
<b>Net Assets, Beginning of Year</b>	<u>2,402,861</u>	<u>1,584,221</u>	<u>3,987,082</u>
<b>Net Assets, End of Year</b>	<u>\$ 9,547,267</u>	<u>\$ 4,005,313</u>	<u>\$ 13,552,580</u>

**Habitat for Humanity of Greater Memphis, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2023**

	<b>Construction and Other Programs</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries	\$ 2,550,830	\$ 392,861	\$ 594,497	\$ 3,538,188
Payroll taxes	157,516	68,959	32,406	258,881
 Total personnel	 2,708,346	 461,820	 626,903	 3,797,069
Advertising and public relations	54,579	49,611	147,839	252,029
Bank charges	42,802	48,782	(41)	91,543
Benefits	27,683	22,496	5,297	55,476
Construction costs	9,335,923	3,746	4,573	9,344,242
Contract labor	78,557	-	-	78,557
Cost of events	96,903	23,322	170,444	290,669
Donation and tithe	-	125,000	-	125,000
Dues and subscriptions	3,839	41,146	13,597	58,582
Employee recruitment	3,295	3,396	2,971	9,662
Information technology	22,301	10,469	29,664	62,434
Insurance	366,138	119,521	85,564	571,223
Interest	144,481	95,691	-	240,172
Maintenance and repairs	40,455	20,784	11,027	72,266
Miscellaneous	21,264	488	508	22,260
Postage	6,601	1,910	1,851	10,362
Printing	12,379	1,130	19,798	33,307
Professional fees	78,340	146,648	25,788	250,776
Rent	361,866	12,830	19,360	394,056
Supplies and tools	84,892	35,977	13,610	134,479
Taxes and permits	227,422	20	46	227,488
Telephone and internet	19,209	11,308	4,830	35,347
Training and workshops	17,207	14,793	13,558	45,558
Travel	43,593	56,453	14,791	114,837
Utilities	59,386	3,703	4,231	67,320
Vehicles	132,756	605	1,582	134,943
Weed cutting	101,065	-	-	101,065
Sponsorships	-	-	1,000	1,000
 Total expenses before depreciation	 14,091,282	 1,311,649	 1,218,791	 16,621,722
Depreciation	32,535	-	-	32,535
 Total expenses	 <u>\$ 14,123,817</u>	 <u>\$ 1,311,649</u>	 <u>\$ 1,218,791</u>	 <u>\$ 16,654,257</u>

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

	<u>Construction and Other Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
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>

**Habitat for Humanity of Greater Memphis, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Operating Activities</b>		
Change in net assets	\$ (2,078,437)	\$ 9,565,498
Items not requiring cash		
Depreciation	32,535	23,924
Amortization of discount on mortgages receivable	(520,462)	(270,081)
Present value discount on notes payable	91,993	84,019
Amortization of closing costs	98,884	31,060
Amortization of finance lease obligation	26,644	-
Forgiveness of PPP loan	-	(531,972)
Recoveries on repossessed homes	(25,571)	-
Loss on sale of completed homes	808,023	220,031
Gain on the sale of property and equipment	(6,722)	(8,000)
Gain on the sale of mortgage receivables	(1,427,315)	(450,892)
Gain on debt cancellation	(409,621)	-
Sale of foreclosed homes	93,714	68,634
Changes in assets and liabilities		
Cash held in escrow	(48,310)	1,910
Grants and accounts receivable	(753,619)	(1,594,455)
Mortgages receivable	2,820,662	1,159,922
Pledges receivable - related party	-	106
Inventory	(22,385)	(7,021)
Construction-in-process, land and repossessed homes	(2,993,562)	(4,144,415)
Prepaid expenses	(3,469)	(24)
Accounts payable, accrued expenses and deferred revenue	(1,558,884)	2,701,114
Escrow and deposits	62,453	22,540
Operating leases	2,559	-
	<u>(3,732,453)</u>	<u>(2,693,600)</u>
Total adjustments		
Net cash provided by (used in) operating activities	<u>(5,810,890)</u>	<u>6,871,898</u>

**Habitat for Humanity of Greater Memphis, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

(Continued)

	<u>2023</u>	<u>2022</u>
<b>Investing Activities</b>		
Investment in joint venture	-	(336,473)
Proceeds from sale of mortgage receivables	2,320,932	753,568
Proceeds from the sale of property and equipment	7,050	8,000
Purchase of property and equipment	(125,708)	(53,834)
	<u>2,202,274</u>	<u>371,261</u>
<b>Financing Activities</b>		
Loan costs	-	(177,844)
Borrowings on notes payable and line of credit	-	900,000
Repayments on notes payable and line of credit	(184,148)	(1,109,430)
Principal payments on finance lease obligations	(25,020)	-
Loan proceeds from HFHI NMTC Sub-CDE IV and V, LLC debt	-	712,398
	<u>(209,168)</u>	<u>325,124</u>
Net cash provided by (used in) financing activities	<u>(209,168)</u>	<u>325,124</u>
Net change in cash and cash equivalents	(3,817,784)	7,568,283
<b>Cash and Cash Equivalents (Including Restricted Cash), Beginning of Year</b>	<u>9,677,236</u>	<u>2,108,953</u>
<b>Cash and Cash Equivalents (Including Restricted Cash), End of Year</b>	<u>\$ 5,859,452</u>	<u>\$ 9,677,236</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 139,768</u>	<u>\$ 144,729</u>
<b>Schedule of Noncash Operating Transactions</b>		
Transfer of homes for mortgages receivables	<u>\$ 4,329,515</u>	<u>\$ 1,472,918</u>
<b>Schedule of Noncash Financing Transactions</b>		
Non-cash finance lease liability from obtaining ROU asset	<u>\$ 137,674</u>	<u>\$ -</u>
Construction in progress contributed to NMTC VI for note payable	<u>\$ -</u>	<u>\$ 729,325</u>
Gain on cancellation of debt	<u>\$ 409,621</u>	<u>\$ -</u>

## **Note 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.

## **Note 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.

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.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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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 \$252,029 and \$33,869 for the years ended June 30, 2023 and 2022, respectively.

***Concentration of Credit Risk***

The mortgage notes are collateralized by real property, and transfers to homeowners are based on appraised value. 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.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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***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, 2023 and 2022 was \$109,532 and \$95,386, respectively. The Organization does not recognize interest income on outstanding accounts receivable.

***Employee Retention Credit***

In response to the economic impact of the COVID-19 pandemic, Congress introduced the Employee Retention Credit ("ERC"). The ERC is a refundable payroll tax credit available to taxpayers who experienced either a full or partial suspension of business operations due to government orders or had a significant drop in gross receipts. For 2020, the credit was limited to 50% of qualified wages of up to \$10,000 paid to each eligible employee, for a maximum credit of \$5,000 per eligible employee. For 2021, the credit was limited to 70% of qualified wages of up to \$10,000 paid to each eligible employee each calendar quarter, for a maximum credit of \$21,000 per eligible employee. The ERC may be recognized once the conditions attached to the ERC have been substantially met.

The Organization qualified for the ERC based on being partially shut down and a reduction in gross receipts for certain quarters in 2020 and 2021. The Organization incurred qualifying wages and has recognized \$1,056,783 associated with the ERC as other income in the accompanying statements of activities for 2023.

At June 30, 2023 the Organization had a receivable of \$1,056,783 related to the ERCs.

***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, 2023 or 2022, and there are no interest and penalties related to income tax assessments.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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***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 \$32,535 and \$23,924 for the years ended June 30, 2023 and 2022, respectively, and was computed using the straight-line method over the respective assets' estimated useful lives, which range from 5 to 15 years.

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

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 367,748	\$ 326,293
Furniture and equipment	273,879	227,275
Automobiles	<u>263,280</u>	<u>138,327</u>
	904,907	691,895
Accumulated depreciation	<u>(613,289)</u>	<u>(607,850)</u>
	<u>\$ 291,618</u>	<u>\$ 84,045</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.

***Adoption of New Accounting Standards***

On July 1, 2022, the Organization adopted Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use ("ROU") asset and lease liability on the consolidated balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of consolidated financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. As part of the transition to the new standard, the Organization was required to measure and recognize leases that existed as of July 1, 2022, using an alternative transition method and chose to adopt the new guidance at the effective date without adjusting the comparative consolidated financial statements. For leases existing at the effective date, the Organization elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. The Organization also chose the practical expedients to not include short-term leases in the calculation of the lease liability, to combine non-lease and lease components in the calculation of the lease liability and to use a risk-free rate for the initial and subsequent measurement of lease liabilities. The adoption of Topic 842 resulted in the recognition of operating ROU assets and lease liabilities of approximately \$2,355,000 and \$2,496,000, respectively. There was no impact to net assets on the initial application date of July 1, 2022. The accounting for finance leases remained substantially unchanged with the adoption of Topic 842.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**Leases**

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date. The Organization combines lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office space. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all operating lease liabilities or the implicit rate in the lease if it is readily determinable. The risk-free rate is determined using a period comparable with the lease term. The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The Organization has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

**Subsequent Events**

The Organization evaluated the effect subsequent events would have on the financial statements through January 24, 2024, which is the date the financial statements were available to be issued.

**Note 3. Availability and Liquidity**

The following represents the Organization's financial assets at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents, including restricted cash and cash held in escrow	\$ 6,292,366	\$ 10,061,840
Accounts receivable, net	3,869,545	3,115,926
Mortgage receivable, net	<u>394,260</u>	<u>376,958</u>
Total financial assets	10,556,171	13,554,724
Less amounts not available to be used within one year		
Net assets with donor restrictions	2,717,507	4,005,313
Net assets with restrictions related to long-term assets	(971,578)	(1,063,571)
Net assets with purpose restrictions to be met in less than a year	(327,500)	(1,412,060)
Restricted cash and cash held in escrow	<u>555,373</u>	<u>548,474</u>
	<u>1,973,802</u>	<u>2,078,156</u>
Financial assets available to be used within one year	<u>\$ 8,582,369</u>	<u>\$ 11,476,568</u>

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

The Organization maintains one line of credit with First Horizon Bank of \$1,975,000. As of June 30, 2023, \$1,975,000 remained available on the Organization's First Horizon Bank line of credit.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**Note 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, 2023 and 2022, was \$432,914 and \$384,604, respectively.

The Organization has recorded an allowance for uncollectible mortgages receivable of \$208,511 as of June 30, 2023 and 2022.

Future scheduled mortgage payments are as follows for years ending June 30:

2024	\$	394,260
2025		386,253
2026		375,177
2027		368,925
2028		368,925
Thereafter		<u>6,064,045</u>
		7,957,585
Discount		(4,153,148)
Allowance for doubtful accounts		<u>(208,511)</u>
		<u>\$ 3,595,926</u>

**Note 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 \$1,012,914 and \$338,418 for the years ending June 30, 2023 and 2022. 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, 2023.

The Organization received proceeds from the transfer of loans during 2023 and 2022 in the amount of \$2,320,932 and \$753,568, respectively, and recognized a gain of \$1,427,315 and \$450,892 related to these sales, which is included in other income.

## **Note 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"). The Organization has fulfilled their obligations under NMTC Programs one and two.

In December 2014, the Organization entered into a third NMTC Program similar to the first two programs. 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 August 2022, 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 \$409,621 as a result of the cancellation of debt.

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.

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.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**Note 7. Lines of Credit**

As of June 30, 2023, the Organization has a line of credit with First Horizon Bank of \$1,975,000. The First Horizon Bank line of credit bears interest monthly at a variable rate based on a calculation performed by the bank (5.50% as of June 30, 2024) and expires on April 30, 2024. At June 30, 2023, the Organization had no outstanding borrowings under this line of credit.

**Note 8. Notes Payable**

Notes payable consists of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</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 \$2,947,122 and \$3,131,270 as of June 30, 2023 and 2022, respectively. Balances of \$2,947,122 and \$3,131,270 reduced by discounts of \$971,578 and \$1,147,590 as of June 30, 2023 and 2022, respectively.	\$ 1,975,544	\$ 2,067,699
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 exercised the option to waive the debt on August 23, 2022 so as to participate in the NMTC Program. Balance of \$1,322,898 is reduced by unamortized loan cost of \$68,839 as of June 30, 2022.	-	1,254,059
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 \$180,738 and \$211,271 as of June 30, 2023 and 2022, respectively.	3,155,540	3,125,007
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 \$163,788 and \$191,833 as of June 30, 2023 and 2022, respectively.	1,357,462	1,329,417

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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 \$158,193 and \$172,064 as of June 30, 2023 and 2022, respectively.

<u>1,283,530</u>	<u>1,269,659</u>
<u>\$ 7,772,076</u>	<u>\$ 9,045,841</u>

Future maturities of notes payables are as follows for years ending June 30:

2024	\$ 156,211
2025	221,817
2026	284,044
2027	337,846
2028	395,257
Thereafter	<u>7,851,199</u>
	9,246,374
Discount	(971,579)
Debt issuance costs	<u>(502,719)</u>
Total	<u>\$ 7,772,076</u>

**Note 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 as of June 30, 2022.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**Note 10. Net Assets with Donor Restrictions**

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

	<u>2023</u>	<u>2022</u>
Home construction	\$ 1,299,078	\$ 2,475,631
Grants	<u>1,418,609</u>	<u>1,529,682</u>
	<u>\$ 2,717,687</u>	<u>\$ 4,005,313</u>

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

	<u>2023</u>	<u>2022</u>
Home construction	\$ 1,814,053	\$ 142,923
Grants	<u>136,103</u>	<u>198,045</u>
	<u>\$ 1,950,156</u>	<u>\$ 340,968</u>

**Note 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.

**Note 12. Leases**

The organization has entered into the following lease arrangements:

***Finance Leases***

The Organization leases a truck under a finance lease agreement that expires in 2028. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

***Operating Leases***

The Organization leases office and ReStore space through an operating lease that expires in 2031. The lease agreement includes rent escalation clauses to cover increases in the lessors' operating costs. The Organization also leases other equipment under operating leases that expire prior to 2028.

**Habitat for Humanity of Greater Memphis, Inc.**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

The lease cost and other required information for the year ended June 30, 2023 is:

Finance lease cost		
Amortization of right-of-use asset	\$	22,946
Interest on lease liabilities		3,698
Operating lease cost		<u>332,914</u>
Total lease cost	\$	<u><u>359,558</u></u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$	3,698
Financing cash flows from finance leases		21,322
Operating cash flows from operating leases		330,356
Right-of-use assets obtained in exchange for new finance lease liabilities		137,674
Right-of-use assets obtained in exchange for new operating lease liabilities		-
Weighted-average remaining lease terms		
Finance leases		5.00 years
Operating leases		7.56 years
Weighted-average discount rate		
Finance leases		2.89%
Operating leases		2.88%

Future minimum rental payments including the lease renewal are as follows for the years ended June 30:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2024	\$ 25,020	\$ 315,936
2025	25,020	313,052
2026	25,020	326,585
2027	25,020	343,933
2028	25,020	333,460
Thereafter	<u>-</u>	<u>852,693</u>
Total future undiscounted lease payments	125,100	2,485,659
Imputed interest	<u>(8,748)</u>	<u>(252,249)</u>
Lease liabilities	<u>\$ 116,352</u>	<u>\$ 2,233,410</u>

**2022 Leasing Activity**

In 2022, the Organization accounted for leases under ASC 840, *Leases*. Rent expense for all material operating leases was \$286,141 for the year ended June 30, 2022.

**Note 13. Subsequent Events**

On July 10, 2023, the Organization signed a lease for an additional location to open a second ReStore and add additional office space in Collierville, Tennessee. The Organization plans to move approximately half of the office staff to the new location upon completion of construction of the new space. The lease begins on February 1, 2024 with an initial term of 90 months and two 5 year renewal options.

***Supplementary Information***



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## **Report Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

### **Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards issued* by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Greater Memphis, Inc. (the "Organization") (a non-profit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2024.

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**FORVIS,LLP**

**Memphis, Tennessee  
January 24, 2024**



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## **Report on Compliance for the Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

### **Independent Auditor's Report**

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

### **Report on Compliance for the Major Federal Program**

#### ***Opinion on the Major Federal Program***

We have audited the Habitat for Humanity of Greater Memphis, Inc. (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2023. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

#### ***Basis for Opinion on the Major Federal Program***

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

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on Internal Control Over Compliance**

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

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

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

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

**FORVIS,LLP**

**Memphis, Tennessee**  
**January 24, 2024**

**Habitat for Humanity of Greater Memphis**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**Year Ended June 30, 2023**

Grantor/Pass-Through Grantor	Program Name	Assistance Listing Number	Contract Number	Total Provided to Subrecipients	Total Expenditures
<b>Federal Awards</b>					
U.S. Department of Housing and Urban Development					
Pass-through Funding					
City of Memphis, Tennessee					
Coronavirus State and Local Fiscal Recovery Funds					
City ARPA - AIP	City ARPA 62+ and City ARPA 61-	21.027		\$ -	\$ 79,862
City ARPA - New Construction	City ARPA New Construction	21.027	39540	-	345,896
Shelby County ARPA	County ARPA	21.027		-	812,135
	Total			-	1,237,893
Division of Housing and Community Development	Aging in Place - Roofing Program	14.228	37120	-	20,060
Division of Housing and Community Development	Memphis Affordable Housing Trust Fund Program	14.228	37720	-	4,849
	Total			-	24,909
	Total Federal Awards			-	1,262,802
<b>State Awards</b>					
State of Tennessee					
Tennessee Health & Disparities		93.391		-	49,385
	Total State Awards			-	49,385
	Total Federal and State Awards			\$ -	\$ 1,312,187

**Habitat for Humanity of Greater Memphis, Inc.  
Notes to Schedule of Expenditures and Federal Awards and State Financial Assistance**

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**SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America	Unmodified
Internal control over financial reporting	
Material weakness(es) identified?	None reported
Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	None reported

***Federal Awards***

Internal control over major programs	
Material weakness(es) identified?	None reported
Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	None reported

Identification of major programs

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

***Current Year Findings***

None reported.

***Prior Year Findings***

None reported.

**Habitat for Humanity of Greater Memphis, Inc.  
Schedule of Findings and Questioned Costs**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Current Year Findings***

No findings to report under 2 CFR Section 516(a) of the Uniform Guidance.

***Prior Year Findings***

A single audit was not performed in the prior year.