




Habitat for Humanity of Greater Memphis, Inc.

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

June 30, 2024 and 2023



Habitat for Humanity of Greater Memphis, Inc.
Contents
June 30, 2024 and 2023

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Habitat for Humanity of Greater Memphis, Inc.
Board of Directors
June 30, 2024 and 2023

Board of Directors

Gerre Currie, Board Chair
Jerome Franklin, Board Vice Chair
John Stemmler, Treasurer
David Bradford, Secretary
David Middleton, Member-At-Large
Louis Brownlee
Austin Burress
J. Ford Canale
Tom Faller
Kathy Fellenstein
Michael Fulton
Derna Greenberg
Alisa Haushalter
Pat Lichterman Bates
Jennifer Mason
Denise McCullough
Aarthi Rodriguez
Ron Smith
Bill Stemmler
Alex Turley
Lucinda Williams

Management Officials

Dwayne Spencer, President/CEO
Stacy Davis, Chief Financial Officer

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habitat for Humanity of Greater Memphis, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization, as of June 30, 2024 and 2023, and the 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, which 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.

Supplementary Information

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

Other Information

The roster of the Board of Directors and Management Officials has not been subjected to the auditing procedures applied by us in the audit of the financial statements, and accordingly, we do not express an opinion, or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2025, 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 Mazars, LLP

**Memphis, Tennessee
January 27, 2025**

Habitat for Humanity of Greater Memphis, Inc.
Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,522,087	\$ 5,736,993
Cash - restricted	81,422	122,459
Cash held in escrow	444,612	432,914
Accounts receivable, net	440,519	3,516,645
Grants receivable	4,184,038	352,900
Mortgages receivable - current portion, net	399,250	394,260
Inventory	313,591	68,935
Completed homes available for sale	385,116	309,711
Construction-in-process, land and repossessed homes	3,467,991	2,912,127
Prepaid expenses	198,633	10,633
	<u>11,437,259</u>	<u>13,857,577</u>
Mortgages receivable - less current portion, net	3,216,345	3,201,666
Investment in joint ventures (Note 6)	4,429,165	4,426,679
Property and equipment, net	1,222,839	291,618
Right of use asset - operating leases	4,950,436	2,090,081
	<u>4,950,436</u>	<u>2,090,081</u>
Total assets	<u>\$ 25,256,044</u>	<u>\$ 23,867,621</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,181,115	\$ 844,821
Deferred revenue	274,460	899,462
Escrow and deposits	541,277	527,357
Notes payable - current portion	2,286,928	156,211
Current portion of finance lease liability	22,589	21,947
Current portion of operating lease liability	561,385	255,737
	<u>4,867,754</u>	<u>2,705,535</u>
Other Liabilities		
HFHI NMTC Leverage Lender 2016-1 LLC debt (Notes 6 & 8), net	3,185,833	3,155,540
Harbor Community Fund XXII, LLC debt (Notes 6 & 8), net	1,385,509	1,357,462
HFHI NMTC Sub-CDE IV and V, LLC Debt (Notes 6 & 8), net	1,299,539	1,283,530
Finance lease liability, net of current portion	71,815	94,405
Operating lease liability, net of current portion	4,747,958	1,977,673
Line of credit	511,924	-
Long-term notes payable, less current portion	1,610,842	1,819,333
	<u>12,813,420</u>	<u>9,687,943</u>
Total other liabilities	<u>12,813,420</u>	<u>9,687,943</u>
Total liabilities	<u>17,681,174</u>	<u>12,393,478</u>
Net Assets		
Without donor restrictions	6,631,915	8,756,456
With donor restrictions	942,955	2,717,687
	<u>7,574,870</u>	<u>11,474,143</u>
Total net assets	<u>7,574,870</u>	<u>11,474,143</u>
Total liabilities and net assets	<u>\$ 25,256,044</u>	<u>\$ 23,867,621</u>

Habitat for Humanity of Greater Memphis, Inc.
Statement of Activities
Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Support			
Grants	\$ 4,842,889	\$ -	\$ 4,842,889
Contributions	2,682,191	412,529	3,094,720
Total support	<u>7,525,080</u>	<u>412,529</u>	<u>7,937,609</u>
Revenue			
Home sales, net	2,326,444	-	2,326,444
ReStore sales	2,577,856	-	2,577,856
Other	1,310,649	-	1,310,649
Total revenue	<u>6,214,949</u>	<u>-</u>	<u>6,214,949</u>
Net assets released from restrictions	<u>2,187,261</u>	<u>(2,187,261)</u>	<u>-</u>
Total support and revenue	<u>15,927,290</u>	<u>(1,774,732)</u>	<u>14,152,558</u>
Expenses			
Program services			
Construction and other programs	14,490,491	-	14,490,491
Support services			
General and administrative	1,521,833	-	1,521,833
Fundraising	2,039,507	-	2,039,507
Total expenses	<u>18,051,831</u>	<u>-</u>	<u>18,051,831</u>
Change in Net Assets	<u>(2,124,541)</u>	<u>(1,774,732)</u>	<u>(3,899,273)</u>
Net Assets, Beginning of Year	<u>8,756,456</u>	<u>2,717,687</u>	<u>11,474,143</u>
Net Assets, End of Year	<u>\$ 6,631,915</u>	<u>\$ 942,955</u>	<u>\$ 7,574,870</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>
Support and Revenue			
Support			
Grants	\$ 4,351,473	\$ -	\$ 4,351,473
Contributions	1,650,575	662,530	2,313,105
Total support	<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
Total revenue	<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>
Total support and revenue	<u>15,863,446</u>	<u>(1,287,626)</u>	<u>14,575,820</u>
Expenses			
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
Total expenses	<u>16,654,257</u>	<u>-</u>	<u>16,654,257</u>
Change in net assets before modification of restrictions	<u>(790,811)</u>	<u>(1,287,626)</u>	<u>(2,078,437)</u>
Change in Net Assets	<u>(790,811)</u>	<u>(1,287,626)</u>	<u>(2,078,437)</u>
Net Assets, Beginning of Year	<u>9,547,267</u>	<u>4,005,313</u>	<u>13,552,580</u>
Net Assets, End of Year	<u>\$ 8,756,456</u>	<u>\$ 2,717,687</u>	<u>\$ 11,474,143</u>

Habitat for Humanity of Greater Memphis, Inc.
Statement of Functional Expenses
Year Ended June 30, 2024

	Construction and Other Programs	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 3,289,596	\$ 483,391	\$ 873,649	\$ 4,646,636
Payroll taxes	196,801	100,951	44,608	342,360
Total personnel	3,486,397	584,342	918,257	4,988,996
Advertising and public relations	9,604	56,468	393,013	459,085
Bank charges	56,066	70,720	15	126,801
Benefits	45,191	37,745	7,626	90,562
Construction costs	7,989,783	2,514	11,282	8,003,579
Contract labor	8,202	9,830	-	18,032
Cost of events	42,598	21,205	330,496	394,299
Cost of goods sold	662,430	-	-	662,430
Donation and tithe	-	99,238	-	99,238
Dues and subscriptions	4,981	37,642	9,964	52,587
Employee recruitment	9,613	1,244	6,899	17,756
Information technology	28,631	14,084	20,255	62,970
Insurance	458,471	165,947	112,592	737,010
Interest	74,627	84,307	-	158,934
Maintenance and repairs	53,283	21,241	18,820	93,344
Miscellaneous	129,722	1,117	445	131,284
Postage	1,455	223	746	2,424
Printing	15,341	889	35,918	52,148
Professional fees	189,610	102,170	31,474	323,254
Rent	386,210	44,318	48,804	479,332
Sponsorships	1,940	1,500	8,595	12,035
Supplies and tools	92,552	14,928	18,043	125,523
Taxes and permits	223,612	16,850	-	240,462
Telephone and internet	19,553	15,383	6,152	41,088
Training and workshops	37,995	35,392	6,415	79,802
Travel	50,474	78,110	44,899	173,483
Utilities	104,897	4,426	5,312	114,635
Vehicles	152,922	-	3,485	156,407
Weed cutting	85,170	-	-	85,170
Total expenses before depreciation	14,421,330	1,521,833	2,039,507	17,982,670
Depreciation	69,161	-	-	69,161
Total expenses	<u>\$ 14,490,491</u>	<u>\$ 1,521,833</u>	<u>\$ 2,039,507</u>	<u>\$ 18,051,831</u>

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

	Construction and Other Programs	General and Administrative	Fundraising	Total Expenses
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	42,586	23,322	170,444	236,352
Cost of goods sold	54,317	-	-	54,317
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
Sponsorships	-	-	1,000	1,000
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
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>

See Notes to Financial Statements

Habitat for Humanity of Greater Memphis, Inc.
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Activities		
Change in net assets	\$ (3,899,273)	\$ (2,078,437)
Items not requiring cash		
Depreciation	69,161	32,535
Amortization of discount on mortgages receivable	(930,524)	(520,462)
Present value discount on notes payable	69,266	91,993
Amortization of closing costs	31,944	98,884
Amortization of finance lease obligation	26,020	26,644
Equity in earnings of joint ventures	(2,486)	-
Provision for bad debts	(21,182)	-
Recoveries on repossessed homes	-	(25,571)
Loss on sale of completed homes	595,683	808,023
Gain on the sale of property and equipment	-	(6,722)
Loss on disposal of land	93,854	-
Gain on the sale of mortgage receivables	(1,206,319)	(1,427,315)
Gain on debt cancellation	-	(409,621)
Sale of foreclosed homes	109,421	93,714
Changes in operating assets and liabilities		
Cash held in escrow	(11,698)	(48,310)
Accounts receivable	3,097,308	(753,619)
Grants receivable	(3,831,138)	-
Mortgages receivable	3,194,566	2,820,662
Inventory	(244,656)	(22,385)
Construction-in-process, land and repossessed homes	(4,462,395)	(2,993,562)
Prepaid expenses	(188,000)	(3,469)
Accounts payable, accrued expenses and deferred revenue	(246,303)	(1,558,884)
Escrow and deposits	13,920	62,453
Operating leases	215,576	2,559
	<u>(3,627,982)</u>	<u>(3,732,453)</u>
Total adjustments		
Net cash used in operating activities	<u>(7,527,255)</u>	<u>(5,810,890)</u>

Habitat for Humanity of Greater Memphis, Inc.
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

(Continued)

	<u>2024</u>	<u>2023</u>
Investing Activities		
Proceeds from sale of mortgage receivables	1,954,776	2,320,932
Proceeds from the sale of property and equipment	-	7,050
Purchase of property and equipment	<u>(1,023,328)</u>	<u>(125,708)</u>
Net cash provided by investing activities	931,448	2,202,274
Financing Activities		
Borrowings on notes payable and line of credit	3,500,000	-
Repayments on notes payable and line of credit	(1,135,116)	(184,148)
Principal payments on finance lease obligations	<u>(25,020)</u>	<u>(25,020)</u>
Net cash provided by (used in) financing activities	<u>2,339,864</u>	<u>(209,168)</u>
Net change in cash and cash equivalents	(4,255,943)	(3,817,784)
Cash and Cash Equivalents (Including Restricted Cash), Beginning of Year	<u>5,859,452</u>	<u>9,677,236</u>
Cash and Cash Equivalents (Including Restricted Cash), End of Year	<u>\$ 1,603,509</u>	<u>\$ 5,859,452</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 135,794</u>	<u>\$ 139,768</u>
Schedule of Noncash Operating Transactions		
Non-cash operating lease liability from obtaining ROU asset	\$ 3,279,006	\$ -
Transfer of homes for mortgages receivables	3,449,663	4,329,515
	<u>\$ 6,728,669</u>	<u>\$ 4,329,515</u>
Schedule of Noncash Financing Transactions		
Non-cash finance lease liability from obtaining ROU asset	\$ -	\$ 137,674
Gain on cancellation of debt	-	409,621
	<u>\$ -</u>	<u>\$ 547,295</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 accounting principles generally accepted generally accepted in the United States of America ("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 the 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.

Support and 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.

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

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position.

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.

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.

Grants Receivable

The Organization is a beneficiary of grants from various federal, state, and local government entities. The Organization recognizes grant revenue as eligible expenditures are made. A portion of grants receivable represents that portion of grant revenue recognized, but not yet collected.

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, 2024 and 2023 was \$90,574 and \$109,532, 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.

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

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 statement of activities for 2023.

At June 30, 2023, the Organization had a receivable of \$1,056,783 related to the ERCs. This balance was collected in full during fiscal 2024.

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.

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.

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.

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 expense amounted to \$69,161 and \$32,535 for the years ended June 30, 2024 and 2023, 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>2024</u>	<u>2023</u>
Leasehold improvements	\$ 618,063	\$ 367,748
Furniture and equipment	283,086	273,879
Automobiles	240,334	263,280
Construction in progress	<u>763,806</u>	<u>-</u>
	1,905,289	904,907
Accumulated depreciation	<u>(682,450)</u>	<u>(613,289)</u>
	<u>\$ 1,222,839</u>	<u>\$ 291,618</u>

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

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 statement of financial position. 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.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Organization records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

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, 2024 or 2023, and there are no interest and penalties related to income tax assessments.

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. Taxes totaling \$222,344 and 207,827 are included in program services expense on the statements of activities as of June 30, 2024 and 2023, respectively.

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.

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.

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

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
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allocated among the programs and supporting services benefited based on square footage or time and effort as appropriate.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$459,085 and \$252,029 for the years ended June 30, 2024 and 2023, respectively.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 financial statement presentation. There was no impact on the statements of financial position as of June 30, 2023, or the increase in net assets without donor restrictions as presented in the statements of activities for the year ended June 30, 2023.

Change in Accounting Principle

On July 1, 2023, the Organization adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain qualifying insurance receivables and reinsurance recoveries and receivables. This accounting pronouncement did not have a material impact on the financial statements.

Subsequent Events

The Organization evaluated the effect subsequent events would have on the financial statements through January 27, 2025, which is the date the financial statements were available to be issued. See subsequent events disclosure at Note 13.

Note 3. Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents, including restricted cash and cash held in escrow	\$ 2,048,121	\$ 6,292,366
Accounts receivable, net	440,519	3,516,645
Grants receivable	4,184,038	352,900
Mortgage receivable, net	<u>399,250</u>	<u>394,260</u>
Total financial assets	7,071,928	10,556,171
Less amounts not available to be used within one year		
Net assets with donor restrictions	942,955	2,717,507
Net assets with restrictions related to long-term assets	(902,311)	(971,578)
Net assets with purpose restrictions to be met in less than a year	(35,000)	(327,500)
Restricted cash and cash held in escrow	<u>526,034</u>	<u>555,373</u>
	<u>531,678</u>	<u>1,973,802</u>
Financial assets available to be used within one year	<u>\$ 6,540,250</u>	<u>\$ 8,582,369</u>

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

The Organization’s principal source of revenue is derived from contributions from individuals, corporations, and grants, for the construction of homes.

The Organization maintains one line of credit with First Horizon Bank of \$1,975,000. As of June 30, 2024, \$1,463,076 remained available on the Organization’s First Horizon Bank line of credit.

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, 2024 and 2023, was \$444,612 and \$432,914, respectively.

The Organization has recorded an allowance for uncollectible mortgages receivable of \$208,511 as of June 30, 2024 and 2023.

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

2025	\$ 399,250
2026	400,508
2027	396,707
2028	394,984
2029	393,579
Thereafter	<u>5,976,390</u>
	7,961,418
Discount	(4,137,312)
Allowance for doubtful accounts	<u>(208,511)</u>
	<u>\$ 3,615,595</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. There were no new borrowings in 2023 or 2024. The outstanding balances are reflected as notes payable due to Tennessee Housing Development. See Note 8.

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

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, 2024.

The Organization received proceeds from the transfer of loans during 2024 and 2023 in the amount of \$1,954,776 and \$2,320,932, respectively, and recognized a gain of \$1,206,319 and \$1,427,315 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 at June 30, 2023 as a result of the cancelation 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 a 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 a 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.

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

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 a 4.9% ownership in the joint venture. Under the CDE, the Organization was able to secure two 30-year loans totaling \$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.

Note 7. Lines of Credit

As of June 30, 2024, 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 prime rate based on a calculation performed by the bank (8.50% as of June 30, 2024) and previously had a maturity of April 30, 2024. The agreement was extended during fiscal year 2024 and now expires on January 29, 2026. The balance due under this line of credit was \$511,924 as of June 30, 2024. The note is payable in monthly payments of interest only until maturity, at which time the full balance becomes due. The Organization had no outstanding borrowings under this line of credit at June 30, 2023.

Note 8. Notes Payable

Notes payable consists of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</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 \$2,800,082 and \$2,947,122, reduced by discounts of \$902,312 and \$971,578 as of June 30, 2024 and 2023, respectively.	\$ 1,897,770	\$ 1,975,544
Note payable due to Habitat Capital LLC with interest rate of 4% payable monthly, collateralized by certain pledged mortgages or ARPA grant with maturity date of June 30, 2025. The note is payable in interest only payments until maturity, at which time the entire outstanding balance becomes due.	2,000,000	-
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 \$150,445 and \$180,738 as of June 30, 2024 and 2023, respectively.	3,185,833	3,155,540
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		

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
Home construction	\$ 774,296	\$ 1,814,053
Grants	<u>1,412,965</u>	<u>136,103</u>
	<u>\$ 2,187,261</u>	<u>\$ 1,950,156</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 leasing 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. During fiscal 2024, the Organization entered into an additional operating lease for a second location consisting of office and ReStore space. This lease expires in 2031. These lease agreements include rent escalation clauses to cover increases in the lessors' operating costs. The second ReStore began operations in September 2024. The Organization plans to move approximately half of the office staff to the new location upon completion of construction of the new space. Construction of the office space at this location is still in process as of the day the financials were available to be issued. The Organization also leases other equipment under operating leases that expire prior to 2028.

The lease cost and other required information for the year ended June 30, 2024 is:

Finance lease cost	
Amortization of right-of-use asset	\$ 22,946
Interest on lease liabilities	3,073
Operating lease cost	<u>531,512</u>
Total lease cost	<u>\$ 557,531</u>

Habitat for Humanity of Greater Memphis, Inc.
Notes to Financial Statements
June 30, 2024 and 2023

Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 3,073
Financing cash flows from finance leases	21,947
Operating cash flows from operating leases	315,936
Right-of-use assets obtained in exchange for new operating lease liabilities	3,279,006
Weighted-average remaining lease terms	
Finance leases	4.00 years
Operating leases	6.90 years
Weighted-average discount rate	
Finance leases	2.89%
Operating leases	3.49%

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

	<u>Finance Leases</u>	<u>Operating Leases</u>
2025	\$ 25,020	\$ 735,884
2026	25,020	814,284
2027	25,020	860,462
2028	25,020	878,818
2029	-	904,262
Thereafter	<u>-</u>	<u>1,810,337</u>
Total future undiscounted lease payments	100,080	6,004,047
Imputed interest	<u>(5,676)</u>	<u>(694,704)</u>
Lease liabilities	<u>\$ 94,404</u>	<u>\$ 5,309,343</u>

Note 13. Subsequent Events

Community Development Loan

On October 29, 2024, the Organization entered into a Community Development Loan agreement with a financial institution to fund the construction of five new homes. Each home is financed under a separate loan of \$181,000 which are secured by the properties being constructed. Each loan operates under the same terms which collectively make up the "Loan," totaling \$905,000. This loan has a 24-month term from the closing date, with monthly interest payments due until maturity, at which point the entire outstanding balance becomes due, net of a line of credit to be used to cover the expected gap of \$175,000 between the cost to build the homes and the cost to sell the homes. The proposed line of credit will be termed out once fully funded for a period of 1 year with a 10 year amortization. The loan and line of credit bear interest at the Wall Street Journal Prime rate less 4%, with a minimum rate of 3%.

Federal Funding

An executive order was issued on January 27, 2025, indicating that the Office of Management and Budget (OMB) will pause all activities related to obligation or disbursement of all Federal financial assistance. The potential impacts of this executive order on the Organization's future financial position or changes in net assets have not yet been evaluated.

Supplementary Information

Habitat for Humanity of Greater Memphis, Inc.
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2024

Grantor/Pass-Through Grantor Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Provided to Subrecipients	Total Expenditures
Federal Awards				
U.S. Department of Housing and Urban Development COVID 19 - Coronavirus State and Local Fiscal Recovery Funds Pass-through Funding				
City of Memphis, Tennessee ARPA - AIP	21.027	39548	\$ -	\$ 1,537,927
City of Memphis, Tennessee ARPA - New Construction	21.027	39540	-	698,584
Shelby County, Tennessee ARPA	21.027	CA2400375	-	19,206
State of Tennessee ARPA - New Construction	21.027	31701-015006		2,165,157
Total Coronavirus State and Local Fiscal Recovery Funds			-	4,420,874
U.S. Department of Housing and Urban Development Pass-through the City of Memphis, Tennessee Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	37120	-	59,507
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	37720	-	41,172
Total			-	100,679
Total U.S. Department of Housing and Urban Development			-	4,521,553
U.S. Department of Health and Human Services Pass-through the State of Tennessee Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	93.391	GR-23-80922	-	429,813
Total Federal Awards			\$ -	\$ 4,951,366

See Independent Auditor's Report

Habitat for Humanity of Greater Memphis, Inc.
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
June 30, 2024 and 2023

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Habitat for Humanity of Greater Memphis (the "Organization") and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the financial statements. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. There were no subrecipient expenditures for the year ended June 30, 2024.

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

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, 2024, 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 27, 2025.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 Mazars, LLP

**Memphis, Tennessee
January 27, 2025**

Report on Compliance for the Major Program and Report on Internal Control Over Compliance

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, 2024. 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, 2024.

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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about 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 Mazars, LLP

**Memphis, Tennessee
January 27, 2025**

Habitat for Humanity of Greater Memphis, Inc.
Schedule of Findings and Questioned Costs
June 30, 2024 and 2023

Section I – Summary of Auditor’s Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

(Check each description that applies)

- Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

4. Internal control over major federal programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

5. Type of auditor’s report issued on compliance for major federal program(s):

(Check each description that applies. If any other than unmodified apply, also list the name of each major program by the type of opinion applicable to that program.)

- Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

7. Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID 19 - Coronavirus State and Local Fiscal Recovery Funds

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9. Auditee qualified as a low-risk auditee? Yes No

**Habitat for Humanity of Greater Memphis, Inc.
Schedule of Findings and Questioned Costs
June 30, 2024 and 2023**

Section II – Financial Statement Findings

Current Year Findings

None reported

Prior Year Findings

None reported

Section III – Federal Award Findings and Questioned Costs

Current Year Findings

None reported

Prior Year Findings

None reported