

**HABITAT FOR HUMANITY IN THE
ROANOKE VALLEY, INC.**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity in the Roanoke Valley, Inc.

Qualified Opinion

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

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity in the Roanoke Valley, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As explained in the note titled "Generally Accepted Accounting Principles Departure" included in the financial statements, purchased and donated inventory is not consistently recorded in the financial statements. In our opinion, accounting principles generally accepted in the United States of America require that donated inventory be recorded at its fair value at the date of receipt while purchased inventory be recorded at cost. It was not practicable to determine the effects of the unrecorded inventory on the financial statements.

We conducted our audit in accordance with 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity in the Roanoke Valley, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity in the Roanoke Valley, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 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 is fairly stated, in all material respects, in relation to the 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 8, 2024, on our consideration of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'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 Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity in the Roanoke Valley Inc.'s 2022 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated November 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Joti, Alyna, Louren & Company, P. C.

Roanoke, Virginia
January 8, 2024

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2023

(with summarized comparative financial information as of June 30, 2022)

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 279,380	\$ 2,089,223
Accounts receivable	28,244	28,287
Grants receivable	709,421	130,659
Pledges receivable	50,000	-
Employee retention credit receivable	324,634	-
Inventory	28,163	15,159
Investments - current	111,020	249,984
Mortgages receivable - current (net of unamortized discount of \$229,660 and \$232,475)	191,823	192,106
Construction-in-progress and vacant lots	<u>2,863,682</u>	<u>1,997,566</u>
Total current assets	<u>4,586,367</u>	<u>4,702,984</u>
PROPERTY AND EQUIPMENT:		
Automobiles	184,968	143,156
Building	1,393,287	1,349,053
Equipment	86,588	74,232
Land	<u>314,600</u>	<u>314,600</u>
	1,979,443	1,881,041
Accumulated depreciation	<u>614,046</u>	<u>522,153</u>
Property and equipment, net	<u>1,365,397</u>	<u>1,358,888</u>
OTHER NONCURRENT ASSETS:		
Investments	2,643,873	1,255,101
Mortgages receivable (net of unamortized discount of \$3,528,647 and \$3,480,441)	2,589,601	2,529,088
Beneficial interest in perpetual trusts	<u>400,356</u>	<u>377,671</u>
Total other noncurrent assets	<u>5,633,830</u>	<u>4,161,860</u>
Total assets	<u>\$ 11,585,594</u>	<u>\$ 10,223,732</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 228,622	\$ 203,858
Accrued payroll	35,833	31,405
Deferred revenue - current	1,225,000	312,285
Other	<u>75,786</u>	<u>59,481</u>
Total current liabilities	1,565,241	607,029
NONCURRENT LIABILITIES -		
Deferred revenue	<u>1,192,872</u>	<u>2,317,030</u>
Total liabilities	<u>2,758,113</u>	<u>2,924,059</u>
NET ASSETS:		
Without donor restrictions	8,377,125	6,922,002
With donor restrictions	<u>450,356</u>	<u>377,671</u>
Total net assets	<u>8,827,481</u>	<u>7,299,673</u>

Total liabilities and net assets	<u>\$ 11,585,594</u>	<u>\$ 10,223,732</u>
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HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2023

(with summarized comparative financial information for the year ended June 30, 2022)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2023</u> <u>Total</u>	<u>2022</u> <u>Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 534,901	\$ 50,000	\$ 584,901	\$ 648,885
Nonfinancial contributions	367,053	-	367,053	383,470
Grants	2,118,171	-	2,118,171	717,110
Investment income, net	98,275	-	98,275	58,643
Gain (loss) on beneficial interest in perpetual trusts	-	22,685	22,685	(74,251)
Habitat store sales	2,383,763	-	2,383,763	1,902,602
Sale of land and houses (net of discount on mortgages of \$347,475 and \$448,598)	414,606	-	414,606	547,617
Mortgage discount amortization	302,084	-	302,084	262,114
Other revenue	7,023	-	7,023	27,954
Released from restriction	-	-	-	-
Total support and revenue	<u>6,225,876</u>	<u>72,685</u>	<u>6,298,561</u>	<u>4,474,144</u>
EXPENSES:				
Program services	4,518,642	-	4,518,642	4,456,897
Management and general	168,386	-	168,386	169,045
Fundraising	83,725	-	83,725	108,366
Total expenses	<u>4,770,753</u>	<u>-</u>	<u>4,770,753</u>	<u>4,734,308</u>
INCREASE (DECREASE) IN NET ASSETS	<u>1,455,123</u>	<u>72,685</u>	<u>1,527,808</u>	<u>(260,164)</u>
NET ASSETS, BEGINNING	<u>6,922,002</u>	<u>377,671</u>	<u>7,299,673</u>	<u>7,559,837</u>
NET ASSETS, ENDING	<u>\$ 8,377,125</u>	<u>\$ 450,356</u>	<u>\$ 8,827,481</u>	<u>\$ 7,299,673</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2023

(with summarized comparative financial information for the year ended June 30, 2022)

	Program Services	Management and General	Fundraising	2023 Total	2022 Total
Salaries and wages	\$ 1,089,239	\$ 93,650	\$ 44,822	\$ 1,227,711	\$ 1,150,674
Benefits	127,056	8,811	4,716	140,583	130,959
Payroll taxes	82,694	7,139	3,417	93,250	87,566
Total payroll related expenses	1,298,989	109,600	52,955	1,461,544	1,369,199
Advertising	14,389	-	-	14,389	12,273
ARPA workforce	103,908	-	-	103,908	-
Auto	56,953	-	-	56,953	45,299
Bank fees	1,871	-	-	1,871	1,263
Building lots	24,242	-	-	24,242	13,806
Charitable contributions	7,000	-	-	7,000	-
Consulting	-	-	-	-	6,250
Cost of houses sold	1,501,415	-	-	1,501,415	1,893,249
Depreciation	67,597	17,355	6,942	91,894	85,014
Habitat store COGS	1,058,167	-	-	1,058,167	905,112
Insurance	127,489	6,802	-	134,291	98,367
Legal and professional	39,258	4,362	-	43,620	38,419
Miscellaneous	22,868	14,905	14,905	52,678	47,742
Office	35,973	4,135	1,654	41,762	56,022
Postage	1,923	601	601	3,125	1,713
Printing	5,476	1,825	1,825	9,126	12,896
Telephone	9,227	1,684	561	11,472	12,321
Tithe	15,000	-	-	15,000	13,750
Travel	14,153	2,392	2,392	18,937	10,383
Utilities	84,444	4,725	1,890	91,059	86,378
Volunteer committee	28,300	-	-	28,300	24,852
Total other expenses	3,219,653	58,786	30,770	3,309,209	3,365,109
Total expenses	\$ 4,518,642	\$ 168,386	\$ 83,725	\$ 4,770,753	\$ 4,734,308

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF CASH FLOWS

Year ended June 30, 2023

(with summarized comparative financial information for the year ended June 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,527,808	\$ (260,164)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:		
Nonfinancial contributions	(367,053)	(383,470)
Depreciation	91,894	85,014
Mortgage discount amortization	(302,084)	(262,114)
Issuance of mortgages, net of discount	(338,525)	(441,402)
Investment income reinvested	(40,763)	(2,629)
(Gain) loss on beneficial interest in perpetual trusts	(22,685)	74,251
Charitable contribution of land	7,000	-
Changes in operating assets and liabilities:		
Accounts receivable	43	(1,369)
Grants receivable	(578,762)	(17,830)
Pledges receivable	(50,000)	-
Employee retention credit receivable	(324,634)	-
Inventory	(13,004)	(1,465)
Mortgages receivable	580,379	588,246
Construction-in-progress and vacant lots	(512,325)	464,095
Accounts payable	24,764	97,338
Accrued payroll	4,428	4,114
Deferred revenue	(211,443)	2,629,315
Other	16,305	33,043
Net cash provided by (used in) operating activities	(508,657)	2,604,973
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	290,955	-
Purchases of investments	(1,500,000)	(1,000,000)
Purchases of property and equipment	(92,141)	(13,001)
Net cash used in investing activities	(1,301,186)	(1,013,001)

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF CASH FLOWS - (Continued)

Year ended June 30, 2023

(with summarized comparative financial information for the year ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
Net increase (decrease) in cash and cash equivalents	\$ (1,809,843)	\$ 1,591,972
CASH AND CASH EQUIVALENTS		
Beginning	<u>2,089,223</u>	<u>497,251</u>
Ending	<u>\$ 279,380</u>	<u>\$ 2,089,223</u>
Supplemental disclosure of:		
Non-cash investing and financing activities:		
Investment income reinvested	<u>\$ 40,763</u>	<u>\$ 2,629</u>
Donated property and equipment	<u>\$ 6,262</u>	<u>\$ 3,000</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

1. CREATION AND PURPOSE OF ORGANIZATION:

Habitat for Humanity in the Roanoke Valley, Inc. (the “Organization”) was formed as a non-profit Christian housing ministry for the specific purpose of enabling low-income families to obtain modest and decent housing in the Roanoke Valley. To that end, houses are built keeping costs as low as possible by using volunteer labor and donated land and materials whenever possible. Completed homes are then generally sold at cost plus a value for donated professional services, skilled labor, and materials to selected families. A small down payment is required, and the Organization finances the remainder of the sale price with a non-interest-bearing or zero equivalency loan to be repaid over a 18-35-year period. Loan repayments are reinvested in other home building projects. The Organization retains a first lien on the properties sold.

The Organization also operates a retail store (the “ReStore”) where purchased and donated new and used construction and home renovation products are sold to the public at deeply discounted prices. All proceeds from the ReStore are directed towards the Organization’s affordable housing program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Net assets, support, revenue, income, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions. These funds may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

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

Reclassifications – Certain amounts from the prior year have been reclassified to conform with current year presentation.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Significant estimates used in preparing these financial statements include those assumed in computing discounts on mortgages receivable, the depreciable lives of property and equipment, the fair value of investments and the beneficial interest in perpetual trusts, the fair value of nonfinancial contributions, and the allocation of functional expenses. It is at least reasonably possible that significant estimates will change within the next year.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Organization maintains cash balances at several financial institutions. Amounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's cash may at times exceed federally insured limits.

Accounts Receivable – Accounts receivable is stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. As such, no allowance for doubtful accounts is recorded as of year-end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense.

Grants and Pledges Receivable – Grants and pledges receivable that are due in the next year are presented as a current asset and are recorded at their net realizable value. Grants and pledges receivable that are due later than the next fiscal year are presented as noncurrent grants or pledges receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the grants are expected to be collected. Grants and pledges receivable restricted by donors for long-term purposes are classified as noncurrent assets regardless of when payment is due.

Inventory – Inventory consist of materials on hand for use in the building of houses. Purchased supplies are stated at lower of cost or net realizable value using the specific identification method.

Investments – Investments in non-negotiable certificates of deposit are recorded at amortized cost which approximates the investment's fair value. Interest is recorded when earned. Investment income is reported net of fees.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):

Fair Value Measurements – Assets and liabilities are measured at fair value which is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, GAAP established a three-tier valuation hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs are other than quoted prices in active markets that are observable either directly or indirectly; and Level 3 inputs are unobservable in which there is little or no market data, which requires the Organization to develop its own assumptions. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets or liabilities. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Mortgages Receivable – Balances represent the mortgages assigned to the homeowners for houses built and secured by real estate. These mortgages are typically paid back with monthly payments. The mortgages provide for no interest, and the amounts on the statement of financial position for mortgage receivables have been discounted using an imputed rate of interest determined as of the origination date. Such discounts are amortized over the term of the related mortgage.

The Organization uses the direct write-off method in providing for bad debts which approximates the net value of the receivables if the allowance method was followed. Receivables are stated at the amount management expects to collect from outstanding balances at year end. Management estimates that no material losses will be sustained relating to the collectability of mortgages. As such, no allowance for loan losses or adjustment to the balance of mortgages receivable have been recorded as of year-end based on current facts and circumstances.

Construction-In-Progress – Construction-in-progress is valued at cost using the specific identification method. Gifts in-kind towards construction-in-progress are recorded at their fair value on the date they are donated based upon the specific identification method. Provisions for estimated losses on construction-in-progress are made in the period in which such losses are determined.

Property and Equipment – Property and equipment is recorded at cost or at estimated fair value at date of donation. Purchased assets, with a cost exceeding \$1,500, are generally capitalized. Depreciation is provided using the straight-line method over the useful lives of the assets.

Beneficial Interest in Perpetual Trusts – The Organization is a recipient/beneficiary of two irrevocable trusts which are held by others. These arrangements were established when the donors created perpetual trusts in which the Organization shares benefits with other beneficiaries. The Organization accounts for these agreements at fair value using Level 3 inputs by recording its share of the related assets of the trusts, which approximates the present value of the estimated future cash flows from the trusts. The related income distributions received from the beneficial interest in perpetual trusts are recognized as investment income and an increase to net assets without donor restriction.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Sales Tax – Restore purchases from other retailers are exempt from sales tax. All sales from the Restore to the public are charged a sales tax. The Organization charges this sales tax to the customer and records a payable for the tax. Sales taxes payable are included in the other line on the statement of financial position.

Revenue and Cost Recognition – The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. A contract is not executed until the house is completed and sold to the purchaser. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and management and general costs are charged to expense as incurred.

Contract costs include all direct materials, labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repairs. Accrued losses of \$0 were recognized on construction-in-progress at both June 30, 2023 and 2022.

ReStore cash and credit card sales are recognized at the point of sale as control is deemed to transfer to the customer at that point. There are no extended financing arrangements made for ReStore sales. No estimate of future sales returns is necessary to accrue as of year-end as it would be immaterial based on historical sales returns.

Support Recognition – The Organization recognizes support from unconditional contributions and grants as they are pledged or received. Grants received from the U.S. Department of Housing and Urban Development programs, through the City of Roanoke as a subrecipient; the American Rescue Plan Act (“ARPA”), through the City of Roanoke as a subrecipient; Virginia Housing Grant, Commonwealth of Virginia Housing Trust Fund (“VHTF”); and Roanoke Valley-Alleghany Regional Commission (“RVARC”) are recognized once the expenses stipulated in the grant agreements have been incurred.

The Organization is eligible and has claimed a refundable payroll tax credit (the “Employee Retention Credit”) on qualified wages paid as prescribed under the Coronavirus Aid, Relief, and Economics Security Act (the “CARES Act”). The Organization follows Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 958-605, *Not-for-Profit Entities: Revenue Recognition*, and has accounted for the Employee Retention Credit as a grant. The Organization earned and recognized \$324,634 of Employee Retention Credit which is recorded in grants on the statement of activities for the year ended June 30, 2023. Based on the facts and circumstances, The Organization has determined that it has a reasonable and good faith basis to claim the Employee Retention Credit; however, it is at least reasonably possible that the credit could be denied.

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of any donor restrictions.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Support Recognition (Continued) – Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. 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.

Donated Materials, Land, and Buildings – If significant in amount, donated materials are recorded at amounts provided by donors or at fair value using comparable sales of similar items. Donated land and buildings are recorded at appraised values or locality assessed values for property tax purposes which approximates fair value. Donations totaled \$97,266 and \$85,170 of materials and \$251,900 and \$282,700 of land for the years ended June 30, 2023 and 2022, respectively. The Organization has no plans to monetize any of the donated land or materials. All are planned to be used in home construction.

Donated Services – The Organization receives significant amounts of volunteer labor in building its houses. The Organization generally does not record the value of these services since they are not objectively measurable and are not considered skilled labor. However, donations that were objectively measurable totaled \$11,625 and \$12,600 of professional services for the years ended June 30, 2023 and 2022, respectively. Donated services were valued using prevailing rates of similar service providers in the Organization's locality.

Donated Property and Equipment – The Organization occasionally receives donations of property and equipment to use for programs. Donated property and equipment are valued by the donor at estimated fair value using comparable sales of similar items. Donations totaled \$6,262 and \$3,000 of property and equipment for the years ended June 30, 2023 and 2022, respectively. Donations of property and equipment are utilized in various organizational programs.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Payroll related expenses are allocated based on employees' time and effort spent on various activities. Office, utilities, and depreciation are allocated based on the square footage of the main office and Restore building. Insurance is allocated depending on the type of coverage offered by the various policies. Other expenditures that are common to several functions are allocated based on the purpose of each actual expense or based on estimates made by management.

Advertising Costs – Advertising costs are expensed when incurred.

Provision for Income Taxes – The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax provision has been recorded.

The Organization believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain income tax positions that are material to the financial statements. Should any income tax penalties and interest be incurred, the Organization's policy is to recognize them as management and general expenses. With limited exceptions, the Organization is no longer subject to income tax examinations for any years earlier than 2019 for federal purposes.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Recent Accounting Pronouncements – Not Yet Adopted - In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU significantly changes the impairment model for most financial assets, including trade and loan receivables, that are measured at amortized cost and certain other instruments from an incurred loss model under legacy GAAP to an expected loss model. The amendments in the ASU broaden the information that an entity must consider in developing its expected credit loss estimate for financial assets by considering forecasted information. In contrast, legacy GAAP delays the recognition of credit losses until it is probable the loss has been incurred. Accordingly, it is anticipated that credit losses will be recognized earlier under the expected loss model prescribed by the ASU than under the incurred loss model prescribed by legacy GAAP. Additionally, the ASU provides for recording credit losses on available-for-sale debt securities through an allowance account, rather than a write-down of the amortized cost basis as prescribed by legacy GAAP. As a result, entities will be able to record reversals of credit losses in current period income as they occur, which is prohibited by legacy GAAP. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which deferred the effective date of ASU 2016-13 by two years. As such, ASU 2016-13 is effective in fiscal years beginning after December 15, 2022, with early adoption permitted. The Organization is currently evaluating the effects of the ASU on its financial statements and has not yet adopted the ASU.

3. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DEPARTURE:

The Organization does not record inventory for purchases or donations of items for the ReStore. The Organization is following Habitat for Humanity International policies and procedures. However, amounts of inventory material to the financial statements may exist as of June 30, 2023 and 2022.

4. GRANTS AND PLEDGES RECEIVABLE:

Grants and pledges receivable anticipated to be collected within one year consisted of the following on June 30:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 759,421	\$ 130,659
Total grants and pledges receivable	<u>\$ 759,421</u>	<u>\$ 130,659</u>

Management believes that these receivables are fully collectable; therefore, no allowance for doubtful accounts is necessary.

5. MORTGAGE DISCOUNT AMORTIZATION:

The Organization grants interest free mortgages to its buyers. The Organization uses the discount rate from Habitat for Humanity International to estimate its annual mortgage discount amortization. The rates range from 7.23% to 9.00% for the year ended June 30, 2023.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

6. FAIR VALUE MEASUREMENTS:

The following tables sets forth by level within the fair value hierarchy the Organization’s assets and liabilities measured on a recurring basis:

	Level 2	Level 3	Total
June 30, 2023:			
Investments (CD's)	\$ 2,754,893	\$ -	\$ 2,754,893
Beneficial interest in perpetual trusts	-	400,356	400,356
	<u>\$ 2,754,893</u>	<u>\$ 400,356</u>	<u>\$ 3,155,249</u>
June 30, 2022:			
Investments (CD's)	\$ 1,505,085	\$ -	\$ 1,505,085
Beneficial interest in perpetual trusts	-	377,671	377,671
	<u>\$ 1,505,085</u>	<u>\$ 377,671</u>	<u>\$ 1,882,756</u>

There were no changes to Level 3 assets other than unrealized gains/losses.

7. DEFERRED REVENUE:

On April 15th, 2022, the Organization was awarded a grant under ARPA through the City of Roanoke as a subrecipient. Grant funds are used for expense reimbursement of qualifying home construction costs during the grant period. The grant period begins upon commencement of the grant and ends on December 1, 2026. Any unused grant funds must be refunded to the City of Roanoke at the end of the grant period. The grant totals \$2,629,315, and these funds were awarded to the Organization in June of 2022. These funds are treated as deferred revenue until qualifying expenses are incurred. The current portion of deferred revenue represents the estimate of qualifying expenses the Organization expects to incur in the next fiscal year. \$2,317,030 and \$2,629,315 of deferred revenue from this grant is recognized as of June 30, 2023 and 2022, respectively.

The Organization receives grants from the Federal Home Loan Bank (“FHLB”) with certain house sales. These grants are awarded to help with closing costs for low-income residential construction projects. The Organization receives the funds at the time of closing, but the funds may have to be returned to the FHLB if the buyer does not stay in the home for at least 5 years. \$72,196 and \$0 of deferred revenue from these grants are recognized as of June 30, 2023 and 2022, respectively.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

8. NET ASSETS WITH DONOR RESTRICTIONS:

The Organization’s net assets with donor restrictions are available for the following purposes:

	2023	2022
Time restricted net assets -		
Pledges receivable	\$ 50,000	\$ -
Perpetually restricted net assets -		
Beneficial interest in perpetual trusts	400,356	377,671
Total net assets with donor restrictions	\$ 450,356	\$ 377,671

Perpetually restricted net assets consist of the beneficial interest in perpetual trusts. Earnings distributions from the perpetually restricted net assets are available for general operations. Changes in the value of the beneficial interest in perpetual trusts are reported as changes in net assets with donor restrictions. Time restricted net assets consist of pledges receivable .

9. GRANT REVENUES:

For the years ended June 30, the Organization received federal governmental grant monies or receivables as follows:

	2023	2022
City of Roanoke passthrough federal grants:		
Melrose Orange Avenue Target Area	\$ -	\$ 199,065
Belmont Fallon Target Area	723,693	518,045
ARPA	312,285	-
Total City of Roanoke passthrough federal grant revenue	1,035,978	717,110
Virginia Housing Trust Fund	437,500	-
Virginia Housing Grant	165,174	-
Roanoke Valley-Alleghany Regional Commission	154,885	-
Employee Retention Credit	324,634	-
Total grant revenue	\$ 2,118,171	\$ 717,110

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

9. GRANT REVENUES – (Continued):

The Organization's federal programs administered by the City of Roanoke are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Organization's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

The Organization has responsibility for expending grant funds in accordance with specified instructions from its funding sources. Any deficits resulting from over expenditures and/or questioned costs are the responsibility of the Organization.

Any unexpended grant funds at the end of the grant period may be refundable or carried over to the following period at the discretion of the funding sources.

10. DEFINED CONTRIBUTION PLAN:

The Organization has a 403(b) plan which covers all full-time employees. Participants may make elective deferrals from their eligible compensation. The Organization matches 100% of participants' deferrals, not to exceed 4% of the participants' eligible compensation. Contributions to the Plan amounted to \$29,495 and \$26,626 for the years ended June 30, 2023 and 2022, respectively. Matching contributions are reflected in the benefits line in the statement of functional expenses.

11. RELATED PARTY TRANSACTIONS:

Habitat for Humanity is a global partnership. In recognition of this partnership, the Organization is expected to contribute 10% of actual contributions not designated for local work to Habitat for Humanity International, Inc., the central organization with which the Organization is affiliated. These funds are to be used to further housing in undeveloped countries.

Additionally, affiliates of Habitat for Humanity International, Inc. are also required to pay to Habitat for Humanity International, Inc., a U.S. Stewardship and Organizational Sustainability Initiative fee. The fee is based on the affiliate's Geographic Service Area. There is a phase in period for implementation of the fee. The Organization paid fees of \$15,000 for both of the years ended June 30, 2023 and 2022. These fees are included in the miscellaneous line in the statement of functional expenses.

Contributions totaling \$1,201 and \$10,605 were received by the Organization from members of the Board of Directors and their associated companies during the years ended June 30, 2023 and 2022, respectively.

12. COMMITMENTS AND CONTINGENCIES:

Continuing program funding is contingent upon availability of funds from federal, state, and local sources and project performance. The funds are generally awarded on an annual basis upon the acceptance of a budget estimate for the current year or approval of a program re-application. Approximately 12% and 16% of the Organization's total support and revenue was provided by grants from the U.S. Department of Housing and Urban Development, through the City of Roanoke as a subrecipient, for the years ended June 30, 2023 and 2022, respectively.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

13. LIQUIDITY:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date.

	2023	2022
Cash and cash equivalents	\$ 279,380	\$ 2,089,223
Accounts receivable	28,244	28,287
Grants receivable	709,421	130,659
Pledges receivable	50,000	-
Employee retention credit receivable	324,634	-
Investments	2,754,893	1,505,085
Mortgages receivable, net	2,781,424	2,721,194
Beneficial interest in perpetual trusts	400,356	377,671
Total financial assets	7,328,352	6,852,119
Less those unavailable for general expenditure within one year, due to:		
Restricted by donor with purpose restriction	(400,356)	(377,671)
Restricted by donor with time restriction	(50,000)	-
Addback time restrictions expected to lapse within one year	50,000	-
Mortgages receivable, net, not collectible within one year	(2,589,601)	(2,529,088)
Investments not redeemable within one year	(2,643,873)	(1,255,101)
Financial assets available for general expenditure within one year	\$ 1,694,522	\$ 2,690,259

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

14. NET OPERATING LOSS:

The Organization has net operating loss (“NOL”) carryforwards resulting from the operations of the ReStore. The net operating loss can only be used on future Form 990-T’s filed by the Organization. The net operating losses expire as follows:

Years ended June 30,	
2036	\$ 19,753
2037	56,402
Indefinitely (does not expire)	<u>890,990</u>
Total NOL carryforward	<u>\$ 967,145</u>

The NOL carryforwards result in a deferred tax asset of \$248,943; however, the Organization has reserved a one hundred percent valuation allowance against this deferred tax asset, so no asset is reported in the statement of financial position.

15. SUBSEQUENT EVENTS:

The Organization has evaluated all subsequent events through January 8, 2024, the date the financial statements were available to be issued.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development Pass Through Programs:		
City of Roanoke, Virginia Programs:		
Community Development Block Grant (CDBG)	14.218	\$ 306,374
Home Investment Partnerships Program (HOME)	14.239	<u>417,319</u>
Subtotal City of Roanoke Programs		<u>723,693</u>
Total U.S. Department of Housing and Urban Development		<u>723,693</u>
Department of the Treasury Pass Through Programs:		
City of Roanoke, Virginia Programs:		
Coronavirus State and Local Fiscal Recovery Funds (ARPA)	21.027	<u>312,285</u>
Subtotal American Rescue Plan Act		<u>312,285</u>
Total Department of the Treasury		<u>312,285</u>
Total expenditures of federal awards		<u>\$ 1,035,978</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

1. BASIS OF PRESENTATION:

The schedule of expenditures of federal awards (the “Schedule”) includes the federal grant expenditures of Habitat for Humanity in the Roanoke Valley, Inc. under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity in the Roanoke Valley, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat for Humanity in the Roanoke Valley, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available. However, the City of Roanoke does not use identifying numbers.

Habitat for Humanity in the Roanoke Valley, Inc. has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3. ASSISTANCE LISTING NUMBERS:

The assistance listing numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget’s Assistance Listing numbers.

4. UNEXPENDED FEDERAL AWARDS:

Habitat for Humanity in the Roanoke Valley, Inc. had unexpended federal awards of \$2,829,732 at June 30, 2022 which were approved for carry over into the current fiscal year. Grant awards on houses in progress during the current fiscal year totaled \$929,750. Habitat for Humanity in the Roanoke Valley, Inc. had unexpended awards of \$2,798,502 at June 30, 2023.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of Habitat for Humanity in the Roanoke Valley, Inc. due to inventory at the Habitat ReStore not being recorded.
2. One material weakness was identified relating to the audit of financial statements which is reported in the Independent Auditor's Report on Internal Control over Financial Reporting. See Finding No. 2023-001 below for details. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity in the Roanoke Valley, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weakness or significant deficiencies in internal control relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Habitat for Humanity in the Roanoke Valley, Inc. expresses an unmodified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The program tested as a major program was: 14.239 Home Investment Partnerships Program.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Habitat for Humanity in the Roanoke Valley, Inc. was determined to not qualify as a low-risk auditee.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)

YEAR ENDED JUNE 30, 2023

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES:

Finding No. 2023-001: Internal control related matters related to inventory tracking. The Habitat ReStore maintains considerable amounts of purchased and donated materials and supplies for sale to the public, for which inventory is not tracked or counted. The lack of tracking of inventory increases the possibility of theft occurring and going unnoticed. While inventory is not recorded on the financial statements, theft could affect store revenue in amounts material to the financial statements. This is a repeat finding as management believes, given the nature of the inventory items, costs exceed the benefits derived from implementing the recommendation.

Recommendation: We recommend inventory item counts be taken periodically. The tracking of inventory items could provide indications of potential theft occurring. In addition, the tracking of inventory could provide management with information on what items are sold more frequently and should be sought out for donations as well as identify slow moving or obsolete items that should be sold at deeper discounts or discarded.

Management Response: The Organization concurs with this finding as stated. As in previous years, management believes given the nature of the inventory items, costs exceed the benefits derived from implementing the recommendation. This is also the recommendation from Habitat for Humanity International, Inc.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDITS

NONE

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2023

January 8, 2024

Department of Housing and Urban Development:

Finding No. 2021-001: The Habitat Restore does not have a formal inventory tracking system or conduct periodic counts of inventory.

Condition: This finding was a material weakness in internal control over financial reporting. Habitat for Humanity in the Roanoke Valley, Inc. does not record inventory held for sale in the Habitat Restore. Amounts are believed to be material to the financial statements.

Recommendation: The Habitat ReStore should implement an inventory tracking system or conduct periodic physical inventory counts.

Current Status: This prior audit finding relates to the current audit finding, No. 2023-001. The recommendation has not yet been adopted, and there are no plans to implement the recommendation since costs would exceed the benefits of implementing the recommendation. Additionally, Habitat for Humanity International Inc. recommends to not track or count inventory due to cost-benefit reasons.

Sincerely yours,

Karen Mason
Executive Director

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2023

January 8, 2024

Department of Housing and Urban Development:

Habitat for Humanity in the Roanoke Valley, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2023.

Foti, Flynn, Lowen & Co., Roanoke, Virginia Audit period: Year ending June 30, 2023

The findings from the June 30, 2023 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT - Material Weaknesses

Finding No. 2023-001: The Habitat ReStore does not have a formal inventory tracking system or conduct periodic counts of inventory.

Recommendation: The Habitat ReStore should implement an inventory tracking system or conduct periodic physical inventory counts.

Action Taken: The Organization believes, given the nature of the inventory items, costs exceed the benefits that could be derived by implementing the recommendation. Additionally, Habitat for Humanity International Inc. does not recommend tracking or counting inventory due to cost-benefit reasons.

Sincerely yours,

Karen Mason
Executive Director

INDEPENDENT AUDITOR’S 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

To the Board of Directors of
Habitat for Humanity in the Roanoke Valley, Inc.

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 in the Roanoke Valley, Inc. (a nonprofit organization) (the “Organization”), which comprise the statement of financial position as of June 30, 2023, 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 8, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity in the Roanoke Valley, Inc.’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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.’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 Organization’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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and questioned costs as item 2023-001 that we considered to be to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity in the Roanoke Valley, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Habitat for Humanity in the Roanoke Valley, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Habitat for Humanity in the Roanoke Valley, Inc.'s response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Habitat for Humanity in the Roanoke Valley, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Joti, Flynn, Louren & Company, P. C.

Roanoke, Virginia
January 8, 2024

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Habitat for Humanity in the Roanoke Valley, Inc.

Report on Compliance for The Major Federal Program

Opinion on The Major Federal Program

We have audited Habitat for Humanity in the Roanoke Valley, Inc.’s 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 each of Habitat for Humanity in the Roanoke Valley, Inc.’s major federal programs for the year ended June 30, 2023. Habitat for Humanity in the Roanoke Valley, Inc.’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Habitat for Humanity in the Roanoke Valley, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Habitat for Humanity in the Roanoke Valley, Inc. and to meet our 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 each major federal program. Our audit does not provide a legal determination of Habitat for Humanity in the Roanoke Valley, Inc.’s 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 Habitat for Humanity in the Roanoke Valley Inc.'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 Habitat for Humanity in the Roanoke Valley Inc.'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, *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 Habitat for Humanity in the Roanoke Valley Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 Habitat for Humanity in the Roanoke Valley Inc.'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 Habitat for Humanity in the Roanoke Valley Inc.'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 Habitat for Humanity in the Roanoke Valley Inc.'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 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.

Iseli, Flynn, Lauen & Company, P. C.

Roanoke, Virginia
January 8, 2024