

Habitat Housing Solutions, Inc.

Financial Statements
For the Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat Housing Solutions, Inc.
West Palm Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat Housing Solutions, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CPA's + Trusted Advisors

Habitat Housing Solutions, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2019, 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 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 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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
June 22, 2019

FINANCIAL STATEMENTS

Habitat Housing Solutions, Inc.
Statement of Financial Position
December 31, 2018

Assets:

Cash	\$	4,037
Accounts receivable		<u>34,635</u>
Total assets	\$	<u><u>38,672</u></u>

Liabilities:

Accounts payable	\$	2,431
Accrued payroll liabilities		<u>46,327</u>
Total liabilities		<u>48,758</u>

Net Assets:

Without donor restrictions:		
Undesignated (deficit)		<u>(10,086)</u>
Total net assets (deficit)		<u>(10,086)</u>
Total liabilities and net assets	\$	<u><u>38,672</u></u>

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

Habitat Housing Solutions, Inc.
Statement of Activities
For the Year Ended December 31, 2018

Change in Net Assets:

Support and Revenue:

Governmental grants	\$	365,429
Homes sold		194,535
Contributions		8,300
In-kind contributions		<u>15,000</u>

Total support and revenue 583,264

Expenses:

Program services		558,165
Supporting services:		
Management and general		<u>11,223</u>

Total expenses 569,388

Change in net assets 13,876

Net Assets (Deficit), January 1 (23,962)

Net Assets (Deficit), December 31 \$ (10,086)

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

Habitat Housing Solutions, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Personnel Costs:			
Salaries	\$ 15,708	\$ 3,927	\$ 19,635
Employee benefits and taxes	<u>1,202</u>	<u>300</u>	<u>1,502</u>
Subtotal	<u>16,910</u>	<u>4,227</u>	<u>21,137</u>
Other Expenses:			
Home construction costs	360,337	-	360,337
Professional fees (including \$ 15,000 of in-kind donations)	179,800	6,667	186,467
Rent	1,118	279	1,397
Miscellaneous	<u>-</u>	<u>50</u>	<u>50</u>
Subtotal	<u>541,255</u>	<u>6,996</u>	<u>548,251</u>
Total expenses	<u>\$ 558,165</u>	<u>\$ 11,223</u>	<u>\$ 569,388</u>

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

Habitat Housing Solutions, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities:	
Change in net assets	\$ 13,876
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Grants receivable	84,933
Accounts receivable	(34,635)
Construction in progress	309,389
Increase (decrease) in liabilities:	
Accounts payable	(13,970)
Accrued payroll liabilities	13,025
Deferred grant revenue	(308,987)
	<hr/>
Net cash provided by (used in) operating activities	63,631
	<hr/>
Cash Flows from Financing Activities:	
Proceeds from line of credit	29,203
Repayments on line of credit	(100,591)
	<hr/>
Net cash provided by (used in) financing activities	(71,388)
	<hr/>
Net increase (decrease) in cash	(7,757)
	<hr/>
Cash, beginning of the year	11,794
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Cash, end of the year	\$ 4,037
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The accompanying notes to financial statements are an integral part of these statements.

Note 1 - Organization and Operations

Habitat Housing Solutions, Inc. (the "Organization"), a Florida nonprofit corporation, was founded in August 2013. The Organization is a Community Housing Development Organization ("CHDO") that builds affordable homes for qualified low-income families in Palm Beach County.

Note 2 - Summary of Significant Accounting Policies

Basis of accounting: The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Basis of presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Update (FASB ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities*. Under FASB ASU No. 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Generally, contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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. All contributions are considered available for general use, unless specifically restricted by the donor or subject to other legal restrictions.

Cash and cash equivalents: The Organization considers all highly liquid investments having initial maturities of three months or less to be cash equivalents. Cash is maintained, with what management believes to be high quality financial institutions, to limit its risk.

Promises to give: Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of December 31, 2018, the Organization had no promises to give.

Note 2 - Summary of Significant Accounting Policies (continued)

Land, finished homes and construction in progress: Land for construction, finished homes and construction in progress are carried at cost or at market value when acquired by gift. Donated land is written down to realizable value. Construction in progress represents the accumulated costs of houses under construction and land improvements. No depreciation is charged against these assets as they are being held for resale. Construction costs are expensed when the property is completed and sold.

Property and equipment: Property and equipment are carried at cost if purchased or, if donated, at fair value on the date of donation, less accumulated depreciation. In accordance with the Organization's policy, capitalization of assets is done only when the cost exceeds \$ 1,000. The Organization follows the policy of providing for depreciation using the straight-line method over the estimated useful life of each type of asset.

Donations of property and equipment are reported as undesignated support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Without donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service, reclassifying net assets with donor restrictions to net assets without donor restrictions at that time.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized. When assets are retired or otherwise disposed of, the cost or donated value and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Deferred revenue: Grant revenue that is not recognized because the compliance requirements, as defined by the individual grant, has not been met is considered deferred revenue.

Grants receivable: Grants receivable represent allowable expenditures, which have not yet been reimbursed by the grantor agency.

Accounts receivable: Accounts receivable consist of sale proceeds due to the Organization.

Homes sold: Homes sold to qualifying homebuyers are recorded at the gross sales price of the home at closing less a discount that represents the difference between the gross sales price and the amount the homebuyers are able to pay.

Grant revenue: Grant revenue is recognized when the compliance requirements for the individual grants are completed and/or the service has been performed, which may include the sale or rental of a constructed home to a qualified homebuyer/household, as defined by the grant agreement.

Functional expenses: The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Expenses that can be directly identified with a program or service are charged accordingly. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort and other methods as determined by management.

Note 2 - Summary of Significant Accounting Policies (continued)

Income taxes: The Organization qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes has been made in the accompanying financial statements.

Use of estimates: The presentation of the financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Concentrations: For the year ended December 31, 2018, approximately 63% of the Organization's total support is comprised of governmental grant revenue relating to the Home Investment Partnerships Program, passed through Palm Beach County. In addition, for the year ended December 31, 2018, approximately 80% of purchases were comprised of construction related costs with a related party (Note 6).

Date of management review: Subsequent events have been evaluated by management through June 22, 2019, which is the date the financial statements were available to be issued.

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$	4,037
Accounts receivable		<u>34,635</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>38,672</u></u>

Note 4 - Donations of Assets, Materials and Services

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and is provided by professionals. During the year ended December 31, 2018, the Organization recorded approximately \$ 15,000 in donated materials and professional services.

Note 5 - Line of Credit

In March 2017, the Organization and Habitat for Humanity of Palm Beach County (Note 6) jointly obtained a line of credit with a financial institution not to exceed \$ 353,679 collateralized by a security interest in all equipment, accounts and other rights of the Organization maturing in December 2018. Interest is due monthly at a floating rate equal to PRIME. This line of credit was paid in full as of December 31, 2018.

Note 5 - Line of Credit (continued)

The Organization capitalizes interest costs as a component of the cost of construction in progress. The capitalized interest is recorded as part of the asset to which it relates and is either amortized over the asset's estimated useful life or recorded as part of the construction costs upon the sale of the property. Capitalized interest for the year ended December 31, 2018 was approximately \$ 1,700.

Note 6 - Related Party Transactions

Habitat for Humanity of Palm Beach County (Habitat) is a private nonprofit, community-based organization whose primary purpose is to provide in the communities it serves, decent, safe and sanitary housing to low income households. The Board of Directors of Habitat Housing Solutions, Inc. (the "Organization") includes the Executive Director of Habitat. The Organization has retained Habitat as the construction contractor for building and improvements for two properties. The construction contracts with Habitat amounted to approximately \$ 348,000 for the two properties. For the year ended December 31, 2018, the Organization paid Habitat approximately \$ 65,000, including approximately \$16,000 of retainage, for the construction of the homes under these agreements.

For the year ended December 31, 2018, the Organization also paid Habitat approximately \$ 159,000 for professional services provided for homes constructed including marketing, volunteer, and family selection and educational services.

The Organization also subleases office space from Habitat under an annual lease with an automatic one-year renewal term. The lease requires monthly payments of approximately \$ 116. The Organization made lease payments of approximately \$ 1,400 for the year ended December 31, 2018.

The Organization employs one of its board members as its sole employee. For the year ended December 31, 2018, salary payments to the board member totaled approximately \$ 7,700 and approximately \$ 46,300 in unpaid wages were accrued at year end. In addition, the Organization also had accounts payable of approximately \$ 2,400 with the board member as of December 31, 2018.

Note 7 - Deficit Net Assets

The Organization was formed for the purpose of acquiring Federal funds to build workforce housing and is currently seeking additional grant funds with the City of West Palm Beach for several properties that have been donated to Habitat (Note 6). Management is working with Habitat to obtain the properties and to finalize the project. Management plans to seek additional grant funds in Palm Beach County as they become available in 2019 and continues to solicit contributions and grants within the community.

INTERNAL CONTROLS AND COMPLIANCE

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
Habitat Housing Solutions, Inc.
West Palm Beach, Florida

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 Housing Solutions, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2018 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 June 22, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free 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 determination of financial statement amounts. 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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
June 22, 2019