

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Financial Statements

December 31, 2018

(With Independent Auditors' Report Thereon)

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Habitat for Humanity of the Middle Keys, Inc.  
Marathon, Florida

***Report on the Financial Statements***

We have audited the accompanying financial statements of Habitat for Humanity of the Middle Keys, Inc. (a non-profit organization), which are comprised of the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, 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 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of the Middle Keys, Inc., as of December 31, 2018 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with Government Auditing Standards, we have also issued a report dated February 12, 2019 on our consideration of Habitat for Humanity of the Middle Keys, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 and should be considered in assessing the results of our audit.

*Smith, Buzze & Associates, LLC.*

Miami, Florida  
February 12, 2019

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Financial Position

December 31, 2018

ASSETS

Cash	\$ 80,858
Investments	326,085
Homeowner reserves held in trust	6,467
Assets held in escrow	32,085
Non-interest bearing residential mortgage loans, net of unamortized discounts of \$1,721,092	1,194,537
Land - restricted under lease	139,758
Property and equipment, net	49,212
Property held for sale or under development	1,264,907
Other assets	<u>5,000</u>
	<u>\$3,098,909</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 25,978
Escrow deposits	53,181
Homeowner reserves held in trust	<u>7,987</u>
Total liabilities	<u>87,146</u>
Net Assets:	
Without donor restrictions	2,918,531
With donor restrictions	<u>93,232</u>
Total net assets	<u>3,011,763</u>
Total liabilities and net assets	<u>\$3,098,909</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Activities

For the Year Ended December 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Transfer of homes	\$ -	-	-	-
Contributions	131,033	-	-	131,033
Interest and dividends	5,094	-	-	5,094
Fundraising events, net of direct costs of \$26,475	24,782	-	-	24,782
Grants	672,906	-	-	672,906
Lease income	210	-	-	210
Administrative and overhead fees	504	-	-	504
Other income	6,211	-	-	6,211
Inkind Donations	259,680	-	-	259,680
Mortgage discount amortization	371,711	-	-	371,711
Net assets released from restrictions	<u>(32,038)</u>	<u>-</u>	<u>32,038</u>	<u>-</u>
Total Revenues	1,440,093	-	32,038	1,472,131
EXPENSES				
Cost of homes sold	-	-	-	-
Program services	798,340	-	-	798,340
Supporting Services:				
General and Administrative	<u>82,318</u>	<u>-</u>	<u>-</u>	<u>82,318</u>
Total Expenses	<u>880,658</u>	<u>-</u>	<u>-</u>	<u>880,658</u>
Change in Net Assets	559,435	-	32,038	591,473
Net assets, beginning of year - as previously reported	4,451,899	-	61,194	4,513,093
Prior period adjustment (Note 12)	<u>(2,092,803)</u>	<u>-</u>	<u>-</u>	<u>(2,092,803)</u>
Net assets, beginning of year - restated	<u>2,359,096</u>	<u>-</u>	<u>61,194</u>	<u>2,420,290</u>
Net assets, end of year	<u>\$2,918,531</u>	<u>-</u>	<u>93,232</u>	<u>3,011,763</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and Administration</u>	<u>Total</u>
Professional fees	6,678	740	7,418
Personnel costs	35,799	17,220	53,019
Irma recovery costs	323,700	-	323,700
Executive director	49,182	25,336	74,518
Insurance	31,495	12,906	44,401
Telephone and utilities	10,523	1,540	12,063
Postage and mailing	-	508	508
Membership dues	1,350	450	1,800
Office equipment, supplies, uniforms	8,783	1,944	10,727
Bank fees	-	66	66
Meetings	574	2,289	2,863
Volunteer program services	5,134	-	5,134
Tithe to Habitat International	-	1,600	1,600
Rent	55,898	7,450	63,348
Amortization and depreciation	-	5,468	5,468
Taxes and licenses	606	100	706
Website	1,055	-	1,055
Auto Expenses	4,673	-	4,673
Real estate taxes	8,901	-	8,901
Contract labor	169,904	-	169,904
Conventions & Education	-	4,701	4,701
Mortgage service and selling costs	24,405	-	24,405
In-kind donations	59,680	-	59,680
Total	<u>\$ 798,340</u>	<u>82,318</u>	<u>880,658</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Cash Flows

For the Year Ended December 31, 2018

Operating Activities	
Change in net assets	\$ 591,473
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	5,468
Mortgage discount amortization	(371,711)
Assets held in escrow	80,009
Changes in operating assets and liabilities:	
Increase in other assets	(4,500)
Decrease in escrow deposits	(72,242)
Decrease in accounts payable and accruals	<u>(33,365)</u>
Net cash provided by operating activities	<u>195,132</u>
Cash flows from investing activities:	
Land - restricted under lease	-
Mortgages receivable collected (issued)	656,276
Equipment purchases, net	(54,680)
Construction in progress	<u>(1,198,789)</u>
Net cash used by investing activities	<u>(597,193)</u>
Net decrease in cash and cash equivalents	(402,061)
Cash and cash equivalents, at beginning of year	<u>809,004</u>
Cash and cash equivalents, at end of year	\$ <u><u>406,943</u></u>
Supplementary disclosure of cash flow information:	
Cash paid during the year for:	
Interest	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

1. **Organization and Purpose**

Habitat for Humanity of The Middle Keys, Inc. ("Habitat") is a not-for-profit organization, incorporated in the State of Florida on August 16, 1991. Habitat is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian not-for-profit organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness, and to make decent shelter a matter of conscience and action. Although Habitat for Humanity International assists with informational and fiscal resources, Habitat is primarily responsible for its own operations.

Habitat builds and renovates affordable homes in the Marathon and Middle Keys area of the Florida Keys through volunteer labor and with the assistance of the future low income homeowner families. Future homeowners are required to contribute three hundred fifty hours of their own labor into the building of their house as well as the houses of others. Habitat houses are sold to low income families at cost, and financed by Habitat with no interest loans over twenty to thirty year terms. Habitat's program is funded through contributions, grants, and in-kind donations, from individuals, foundations, corporations, public agencies and religious organizations.

Habitat is exempt from federal income taxations under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Habitat is generally exempt from state and local taxes. No provision for income tax is recorded in the financial statements.

2. **Summary of Significant Accounting Policies**

a) **Basis of Accounting**

Habitat prepares its financial statements 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.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies - (Cont.)

b) Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

c) Investments

Investments are reported at fair value. Investment income is reported as an increase in unrestricted net assets unless a donor or law temporarily or permanently restricts its use.

d) Assets Held in Escrow

Habitat currently services the mortgages on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset offset by a related liability.

e) Mortgages Receivable

Mortgages receivable consist of non interest bearing mortgages, secured by real estate and payable in monthly installments over twenty to thirty year terms. The mortgages are discounted based upon prevailing market rates for low income housing at the inception of the mortgage. The discount is amortized on a straight-line basis over the term of the mortgage.

Because mortgages receivable are secured by real estate, and ultimately through the process of foreclosure, management believes that such procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

2. Summary of Significant Accounting Policies - (Cont.)

f) Property and Equipment

Equipment purchased or contributed in excess of \$500 is capitalized. Equipment is recorded at cost if purchased and if contributed, at fair market value on the contribution date. Depreciation is computed on a straight-line basis over the following useful lives:

Building and improvement	10 to 40 years
Vehicle and office and construction equipment	5 to 10 years
Furniture and fixtures	10 years

g) Properties Held for Sale

Donated properties not intended for building are recorded at fair market value at the time of donation as properties held for sale. Occasionally Habitat receives or repossesses title to previously transferred homes. At the time of acquisition Habitat records the gross mortgage balance as properties held for sale and the corresponding unamortized mortgage discount is recorded as a gain. Any legal or holding costs associated with properties held for sale are capitalized.

h) Net Assets

Habitat classifies its net assets, revenues and gains, and expenses as without donor restriction or with donor restriction based on the absence or existence of donor-imposed restrictions. These classifications are defined as follows:

Without donor restriction net assets represent available resources other than donor-restricted contributions.

With donor restrictions net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

2. **Summary of Significant Accounting Policies - (Cont.)**

i) **Contributions**

Unrestricted and unconditional contributions are recognized when received or pledged, if applicable. Contributions are reported as with donor restriction if they are received with donor stipulations that limit the use of such assets. When a restriction expires, with donor restriction net assets are reclassified to without donor restriction net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Habitat's policy is to present with donor restriction net assets received during the year whose restrictions are met during the current year as without donor restriction net assets.

Habitat recognizes the expiration of donor restrictions on contributions of property and equipment or cash contributions restricted for property and equipment in the year the property and equipment is placed in service.

j) **Grants**

Entitlement to cost or performance based reimbursement grants is conditioned on the expenditure of funds or attainment of specific performance goals in accordance with the grant restrictions and, therefore, Habitat recognizes revenue to the extent of grant expenditures or performance achieved.

k) **Contributed Services and Materials**

Habitat recognizes contributed services if they require specialized skills and would typically be purchased if not provided by donation. Although a substantial number of volunteers have made significant contributions of their time, their services do not meet these criteria and are not recorded in the financial statements.

l) **Transfers to Homeowners**

Transfers to homeowners are recorded at the sales price of the home at closing. Habitat executes a Declaration of Resale Restrictions and a Quit-Claim Deed with each homeowner. These documents are attached to the land records.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

2. **Summary of Significant Accounting Policies - (Cont.)**

m) **Functional Allocation of Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited.

n) **Use of Estimates**

Accounting principles generally accepted in the United States require management to make estimates and assumptions in preparing the financial statements. Actual results could vary from those estimates.

o) **Advertising Costs**

Advertising costs are expensed as incurred and was approximately \$6,321 for the year ended December 31, 2018.

p) **Income Taxes**

Habitat is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Habitat does file a tax return with the Internal Revenue Service. Management believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. Habitat is subject to routine audits by taxing jurisdictions. However there are currently no such audits in progress for any tax period. Tax periods 2015-2017 are subject to review by IRS should they choose to do so.

q) **Fair Value Measurements of Financial Instruments**

Habitat's financial instruments include cash, mortgages receivable, accounts payable, and notes payable. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time Habitat's entire holdings of a particular financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

2. **Summary of Significant Accounting Policies - (Cont.)**

q) **Fair Value Measurements of Financial Instruments - (Cont.)**

The carrying amounts of the following instruments, approximates their fair value at December 31, 2018 because of the short maturity of these instruments: cash and cash equivalents, mortgages receivable, accounts payable and accrued expenses.

3. **Investments**

Investments at December 31, 2018 consist of the following:

CD	\$ -
Money Market	326,085
	<u>\$326,085</u>

4. **Mortgages Receivable**

Mortgage receivables consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over twenty or thirty year terms. Mortgages receivable at December 31, 2018 consist of the following:

2019	\$	143,304
2020		143,304
2021		143,304
2022		143,304
2023		133,902
Thereafter		2,208,511
Less unamortized discounts		<u>(1,721,092)</u>
		<u>\$1,194,537</u>

Of the twenty two (22) mortgages held by Habitat, all are performing. If a loan was in default a legal notice of default and demand for payment would be sent to borrower. If the borrower was not able to provide remedy to the default, Habitat would be forced to file a foreclosure action. During 2018 Habitat recovered 2 properties via a non-funded sale back in exchange for debt offset and quit claim deed in exchange of debt offset. The properties are being rehabilitated and are included in property held for sale or under development. The unamortized discount of these 2 mortgages, which totaled \$282,565 were recognized as part of mortgage discount amortization revenue in the financial statements.

5. **Property and Equipment**

Property and equipment on December 31, 2018 consist of the following:

Transportation and construction equipment	\$ 54,680
Office equipment and furniture	1,290
Less accumulated depreciation	<u>(6,758)</u>
	<u>\$ 49,212</u>

Depreciation expense for the year ended December 31, 2018 was \$5,468.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

**6. Property Held for Sale or Under Development**

A summary of land in the process of development and sale at December 31, 2018 is as follows:

Site development costs	\$1,038,608
Property (land) under development	<u>226,299</u>
	<u>\$1,264,907</u>

**7. Land - Restricted Under Lease**

Habitat acquired a parcel of land in 2010 that included four (4) single family townhome residences that were to be sold. The four (4) homes were sold during a prior fiscal year. The sale of these homes did not include the land. A ninety-nine (99) year lease was executed between Habitat and the buyer. The land remains on the books as restricted and no encumbrance can be placed upon it. The carrying value of this restricted land is \$60,034. During 2013 and continuing into 2018, Habitat began to improve various sites for construction. An additional \$79,724 has been reflected as part of land restricted under lease.

In addition, Habitat also has other land parcels on which homes have been built and sold with title to the land remaining with Habitat. No value was assigned to this land as it was donated to Habitat and no value was reflected on the books at the time of donation. The value of the land plus improvements is \$226,299 and are reflected in property held for sale or under development.

**8. Special Fundraising Events**

During the year ended December 31, 2018, Habitat conducted the following fundraising events:

	Gross Receipts	Expenses	Net Fundraising Income
Dolphin tournament	\$ 46,156	\$24,825	\$21,331
Miscellaneous events	<u>5,101</u>	<u>1,650</u>	<u>3,451</u>
	<u>\$ 51,257</u>	<u>\$26,475</u>	<u>\$24,782</u>

**9. Transactions with Habitat for Humanity International**

Habitat annually tithes a portion of its contributions to Habitat for Humanity International which uses the funds exclusively to construct homes in economically depressed areas around the world. The contributions to Habitat for Humanity International for the year ended December 31, 2018 were \$1,600.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2018

**10. Hurricane Irma**

On September 10, 2017, the Florida Keys were impacted by Hurricane Irma. Habitat did not suffer any physical damage to its property or assets. However, some properties developed by Habitat and sold to individuals were impacted. Habitat provided assistance to its borrowers as well as others affected by Irma. During 2018, Habitat received donations, grants, in-kind contributions as well as charging fees for repair services. Total donations, grants and in-kind donations approximated \$848,000 and collected fees for services of approximately \$71,000. Expenses related to Irma recovery and repairs amounted to \$323,700 and in-kind costs were \$59,680.

**11. Commitments and Contingencies**

Habitat leases space for its construction activities and storage. The lease which expired January 31, 2019 was renewed for one year (through January 31, 2020) at a rate of \$4,500 per month.

**12. Prior Period Adjustments**

During the audit of the current year's financial statements, certain errors were noted that resulted in an overstatement of reported assets and net assets at December 31, 2017. Discounts on non-interest bearing residential mortgage loans were understated which caused the mortgage loans to be reflected at an overstated value. Accordingly, an adjustment to beginning net assets without donor restrictions in the amount of \$2,092,803 was required to restate net assets at December 31, 2017.

**13. Subsequent Events**

In January 2019, Habitat transferred thirteen (13) of its twenty two (22) mortgage receivables to a wholly owned subsidiary. That entity then secured a loan payable to be used for housing development. The mortgages receivable were used to collateralize the loan. The loan was funded in January 2019 and Habitat received approximately \$2.1 million. The funds are being used to construct 12 homes in Marathon, Florida. The accompanying financial statements do not include any adjustments to reflect this subsequent activity.

**14. Management Evaluations**

Management has evaluated subsequent events through February 12, 2019, the date at which the financial statements were available for issue and does not believe that there are any other subsequent events that require adjustment or disclosure in the accompanying financial statements. (See note 13)

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INDEPENDENT AUDITORS' 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 of the Middle Keys, Inc.

We have audited, 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, the financial statements of Habitat for Humanity of the Middle Keys (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 12, 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'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 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.

*Smith, Buzzi & Associates, LLC.*

Miami, Florida  
February 12, 2019