

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Financial Statements

December 31, 2020

(With Independent Auditors' Report Thereon)

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SMITH, BUZZI & ASSOCIATES, LLC.
CERTIFIED PUBLIC ACCOUNTANTS
9425 SUNSET DRIVE, SUITE 180
MIAMI, FLORIDA 33173
TEL. (305) 598-6701
FAX (305) 598-6716

JULIO M. BUZZI, C.P.A.
JOSE E. SMITH, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2020, 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, 2020 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 May 12, 2021 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, Buzzi & Associates, LLC.

Miami, Florida
May 12, 2021

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Financial Position

December 31, 2020

ASSETS

Cash	\$ 186,913
Investments	2,691,054
Homeowner reserves held in trust	5,399
Homeowner funds held in escrow	16,511
Non-interest bearing residential mortgage loans, net of unamortized discounts of \$2,184,785	1,488,592
Land - restricted under lease	335,351
Property and equipment, net	38,277
Property held for sale or under development	828,771
Other assets	<u>5,000</u>
	<u>\$5,595,868</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 16,511
Other deposits	1,000
Homeowner reserves held in trust	5,399
SBA - Payroll protection loan	26,557
Loan payable	<u>1,885,571</u>
Total liabilities	<u>1,935,038</u>
Net Assets:	
Without donor restrictions	3,599,636
With donor restrictions	<u>61,194</u>
Total net assets	<u>3,660,830</u>
Total liabilities and net assets	<u>\$5,595,868</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Activities

For the Year Ended December 31, 2020

	<u>Unrestricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Sale of homes, net	\$ 700,000	-	700,000
Contributions	263,416	-	263,416
Interest and dividends	14,121	-	14,121
Fundraising events, net of direct costs of \$21,898	26,827	-	26,827
Grants	813,079	-	813,079
Lease income	8,426	-	8,426
Administrative and overhead fees	541	-	541
Other income	158,538	-	158,538
Inkind Donations	-	-	-
Mortgage discount amortization	170,344	-	170,344
Net assets released from restrictions	-	-	-
Total Revenues	<u>2,155,292</u>	-	<u>2,155,292</u>
EXPENSES			
Cost of homes sold	730,706	-	730,706
Program services	764,426	-	764,426
Supporting Services:			
General and Administrative	<u>84,417</u>	<u>-</u>	<u>84,417</u>
Total Expenses	<u>1,579,549</u>	<u>-</u>	<u>1,579,549</u>
Change in Net Assets	575,743	-	575,743
Net assets, beginning of year	<u>3,023,893</u>	<u>61,194</u>	<u>3,085,087</u>
Net assets, end of year	<u>\$3,599,636</u>	<u>61,194</u>	<u>3,660,830</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, 2020

	<u>Program Services</u>	<u>Management and Administration</u>	<u>Total</u>
Mortgage discount expense			
on current year mortgages	286,546	-	286,546
Professional fees	4,850	500	5,350
Personnel costs	113,188	54,443	167,631
Irma recovery costs	123,414	-	123,414
Insurance	25,026	10,256	35,282
Telephone and utilities	10,476	1,817	12,293
Postage and mailing	-	258	258
Membership dues	3,404	1,100	4,504
Office equipment, supplies, uniforms	2,047	452	2,499
Bank fees	-	-	-
Meetings	267	-	267
Tithe to Habitat International	-	2,633	2,633
Rent	57,350	7,450	64,800
Amortization and depreciation	-	5,468	5,468
Website	400	-	400
Auto Expenses	5,448	-	5,448
Real estate taxes	12,597	-	12,597
Contract labor	93,700	-	93,700
Conventions & Education	-	40	40
Mortgage service and selling costs	25,713	-	25,713
In-kind donations	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>764,426</u>	<u>84,417</u>	<u>848,843</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, 2020

Operating Activities	
Change in net assets	\$ 575,743
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	5,468
Mortgage discount amortization	(170,344)
Assets held in escrow	2,792
Changes in operating assets and liabilities:	
Increase in other assets	3,432
Decrease in escrow deposits/homeowner reserves	49,964
Decrease in accounts payable and accruals	<u>(23,774)</u>
Net cash provided by operating activities	<u>443,281</u>
Cash flows from investing activities:	
Land - restricted under lease	(55,593)
Mortgages receivable collected (issued), net of discount	(93,953)
Equipment purchases, net	-
Construction in progress	<u>259,073</u>
Net cash provided by investing activities	<u>109,527</u>
Cash flows from financing activities:	
Loan payable repayments, net	<u>(65,944)</u>
Net cash used by financing activities	<u>(65,944)</u>
Net increase in cash and cash equivalents	486,864
Cash and cash equivalents, at beginning of year	<u>2,391,103</u>
Cash and cash equivalents, at end of year	<u>\$2,877,967</u>
Supplementary disclosure of cash flow information:	
Cash paid during the year for:	
Interest	\$ <u> -</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2020

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 to moderate 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 income qualified families at appraised value, and financed by Habitat with no interest loans over fifteen 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, 2020

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, 2020

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, 2020

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 Deed of improvement 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, 2020

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) **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 2017-2019 are subject to review by IRS should they choose to do so.

p) **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, 2020

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

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

The carrying amounts of the following instruments, approximates their fair value at December 31, 2020 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, 2020 consist of the following:

ICS Holding MMA	\$2,338,072
Money Market	<u>352,982</u>
	<u>\$2,691,054</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, 2020 consist of the following:

2021	\$ 184,760
2022	184,760
2023	184,760
2024	180,872
2025	180,872
Thereafter	2,757,353
Less unamortized discounts	<u>(2,184,785)</u>
	<u>\$1,488,592</u>

Of the twenty seven (27) 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. The unamortized discount of these 27 mortgages, which totaled \$2,184,785 are recognized as part of mortgage discount amortization revenue in the financial statements based on the term life of the mortgage. During 2020, \$170,344 of the amortized discounts were recognized as income. During 2020, Habitat closed 2 loans for which the discount amounted to \$286,546 and this amount has been charged to expense in 2020.

5. **Property and Equipment**

Property and equipment on December 31, 2020 consist of the following:

Transportation and construction equipment	\$ 54,681
Office equipment and furniture	1,290
Less accumulated depreciation	<u>(17,694)</u>
	<u>\$ 38,277</u>

Depreciation expense for the year ended December 31, 2020 was \$5,468.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2020

6. Property Held for Sale or Under Development

A summary of land in the process of development and sale at December 31, 2020 is as follows:

Site development costs	\$ 742,472
Property (land) under development	<u>86,299</u>
	<u>\$ 828,771</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 2020, Habitat began to improve various sites for construction. An additional \$275,317 has been reflected as part of land restricted under lease for a total of \$335,351.

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 \$86,299 and are reflected in property held for sale or under development.

8. Special Fundraising Events

During the year ended December 31, 2020, Habitat conducted the following fundraising events:

	Gross Receipts	Expenses	Net Fundraising Income
Dolphin tournament	\$ 48,241	21,856	\$26,385
Miscellaneous events	<u>478</u>	<u>36</u>	<u>442</u>
	<u>\$ 48,719</u>	<u>\$21,892</u>	<u>\$26,827</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, 2020 were \$2,633.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2020

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 2020 and 2019, Habitat received donations, grants, in-kind contributions as well as charging fees for repair services. Total donations, grants and in-kind donations approximated \$817,000 and \$468,000 and collected fees for services of approximately \$75,000 and \$44,000, respectively. Expenses related to Irma recovery and repairs amounted to approximately \$123,400 and \$90,400 respectively in 2020 and 2019.

11. Loan Payable

In January 2019, Habitat transferred thirteen (13) of its then outstanding 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 \$2.05 million. The funds are being used to construct 11 homes in Marathon, Florida. Loan is non-interest bearing and matures on September 1, 2047. The loan requires monthly principal payments of \$7,115.46 through June 30, 2030 and then \$6,526.52 through August 31, 2039 and various other amounts as per a schedule until maturity. The loan balance is \$1,885,571 at December 31, 2020 and Habitat has \$2,388,072 in loan proceeds set aside in a holding MMA bank account to fund future construction.

12. SBA Payroll Protection Program Loan

On April 6, 2020, the Company signed a US Small Business Administration ("SBA") Note and received \$26,557 in proceeds under the Paycheck Protection Program authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan carries interest at 1% per annum and is forgivable based on use of proceeds being in conformity with guidelines of the CARES Act. The Company is requesting forgiveness of the loan based on use of proceeds. No interest has been accrued as interest is also forgivable and management believes the loan will be forgiven.

13. COVID-19

In early March 2020, the World Health Organization declared the outbreak of the Covid-19 virus a pandemic. Normal business continuity/operations have been and could continue to be impacted for months as significant and unprecedented measures are taken to mitigate the consequences of the pandemic. Management is continually monitoring the situation and evaluating its options during this time. Resulting economic uncertainties have arisen which may negatively affect the results of operations or other impacts whose effect is unknown at this time. No adjustments have been made to these financial statements as a result of this uncertainty.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2020

14. Commitments and Contingencies

Habitat leases space for its construction activities and storage. The lease had a rate of \$4,500 per month and expired January 31, 2021 and was not renewed.

15. Management Evaluations

Management has evaluated subsequent events through May 12, 2021, 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)

SMITH, BUZZI & ASSOCIATES, LLC.
CERTIFIED PUBLIC ACCOUNTANTS
9425 SUNSET DRIVE, SUITE 180
MIAMI, FLORIDA 33173
TEL. (305) 598-6701
FAX (305) 598-6716

JULIO M. BUZZI, C.P.A.
JOSE E. SMITH, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
FLORIDA INSTITUTE OF
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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, 2020, 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 May 12, 2021.

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, Burgin & Associates, LLC.

Miami, Florida
May 12, 2021