

HABITAT FOR HUMANITY OF THE UPPER KEYS, INC.

Financial Statements

and

Independent Auditor's Report

For the Year Ended June 30, 2022

(With Summarized Comparative Financial Information for
the Year Ended June 30, 2021)

Habitat for Humanity of the Upper Keys, Inc.

Contents

Independent Auditor's Report	1-3
Financial Statements	
Statements of financial position	4
Statements of activities and changes in net assets	5
Statements of functional expenses	6
Statements of cash flows	7
Notes to financial statements	8-17
Supplemental Information	
Schedule of Expenditures of State Financial Assistance	18
Notes to Schedule of Expenditures of State Financial Assistance	19
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 <i>GOVERNMENT AUDITING STANDARDS</i>	20-21
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL	22-23
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	24



Menendez & Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of the Upper Keys, Inc, (a non-profit organization), which comprise the statements of financial position as of June 30, 2022, and 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, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of the Upper Keys, Inc., as of June 30, 2022, 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 Opinion

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 of the Upper Keys, and to meet our other 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 audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of the Upper Keys 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.

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance on page 18, as required by Chapter 10.650, Rules of the Auditor's General, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance 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 March 16, 2023, on our consideration of Habitat for Humanity of the Upper Keys 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.

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

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 of the Upper Keys 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 Chapter 10.650, Rules of the Auditor General* in considering Habitat for Humanity of the Upper Keys internal control over financial reporting and compliance.

Other Matter – Comparative Data

The amounts shown for the year ended June 30, 2021, in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Menendez & Company

Certified Public Accountants
Pembroke Pines, Florida
March 16, 2023

Habitat for Humanity of the Upper Keys, Inc.

Statements of Financial Position

June 30, 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,597,648	\$ 2,676,319
Receivables		
Mortgages receivable, net	33,698	31,122
Grants and contributions receivable, net	484,330	97,637
Prepaid expenses and other current assets	36,687	17,039
Total current assets	<u>3,152,363</u>	<u>2,822,117</u>
Property and equipment, net	1,858,121	1,933,493
Other assets		
Receivables		
Mortgages receivable, net	1,384,568	1,421,174
Grants and contributions receivable, net	42,022	85,523
Land held for development	70,023	70,023
Construction in progress - homes	1,122,598	770,254
Rental homes held for sale	3,253,943	1,789,076
Intangible assets-ROGO credits	3,029,952	-
Total other assets	<u>8,903,106</u>	<u>4,136,050</u>
Total assets	<u>\$ 13,913,590</u>	<u>\$ 8,891,660</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 34,987	\$ 157,021
Payroll and related liabilities	11,405	11,513
Security deposits held	24,291	21,466
Total current liabilities	<u>70,683</u>	<u>190,000</u>
Total liabilities	70,683	190,000
Net assets		
Without donor restriction	13,842,907	8,701,660
Total net assets	<u>13,842,907</u>	<u>8,701,660</u>
Total liabilities and net assets	<u>\$ 13,913,590</u>	<u>\$ 8,891,660</u>

The accompanying notes are an integral part of the financial statements

Habitat for Humanity of the Upper Keys, Inc.
Statements of Activities and Changes in Net Assets
Year Ended June 30, 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	Without Donor Restriction	With Donor Restriction	Combined Totals	
			2022	2021
Revenue and support				
Home sales	\$ -	\$ -	\$ -	\$ 227,126
Grants and contributions	1,122,112	-	1,122,112	418,987
Special events, net \$68,527 of expenses	126,621	-	126,621	1,024
Sales - ReStore	405,193	-	405,193	323,130
Rent income	294,200	-	294,200	130,858
Interest income	116,970	-	116,970	122,649
Donated goods and services	3,914,939	-	3,914,939	66,575
Other	2,003	-	2,003	49,146
Total revenue and support	5,982,038	-	5,982,038	1,339,495
Expenses				
Program services	640,847	-	640,847	969,961
Supporting services:				
Management and general	171,497	-	171,497	177,840
Development, public relations, & fund-raising	28,447	-	28,447	21,417
Total expenses	840,791	-	840,791	1,169,218
Change in net assets	5,141,247	-	5,141,247	170,277
Net assets - beginning of year	8,701,660	-	8,701,660	8,531,383
Net assets - end of year	\$ 13,842,907	\$ -	\$ 13,842,907	\$ 8,701,660

The accompanying notes are an integral part of the financial statements

Habitat for Humanity of the Upper Keys, Inc.
Statements of Functional Expenses
Year Ended June 30, 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	Program Services				Supporting Services			Combined Totals	
	Restore	Home Construction	Family Services	Total Program Services	Management and General	Development Public Relations, & Fund-Raising	Total Supporting Services	2022	2021
Salaries	\$ 54,794	\$ 101,397	\$ 15,600	\$ 171,791	\$ 38,999	\$ -	\$ 38,999	\$ 210,790	\$ 257,357
Payroll taxes	4,345	8,041	1,237	13,623	3,093	-	3,093	16,716	22,212
Employee benefits	-	-	-	-	-	-	-	-	2,597
Workers compensation	831	2,592	399	3,822	1,000	-	1,000	4,822	1,668
Contract labor	47,467	-	-	47,467	24	-	24	47,491	24,930
Direct program expenses	-	(288)	198,097	197,809	6,398	25,346	31,744	229,553	620,937
Rent expense	1,034	-	-	1,034	334	-	334	1,368	1,229
Building repairs and maintenance	1,182	-	600	1,782	4,009	-	4,009	5,791	3,458
Utilities	4,271	287	418	4,976	1,736	-	1,736	6,712	6,894
Vehicle expenses	6,684	-	-	6,684	1,539	-	1,539	8,223	7,511
Insurance expenses	6,852	4,024	-	10,876	9,887	-	9,887	20,763	28,875
Professional expenses	-	-	3,872	3,872	76,241	-	76,241	80,113	81,365
Travel	-	-	-	-	1,090	-	1,090	1,090	1,565
Depreciation	8,297	-	148,494	156,791	465	-	465	157,256	67,226
Engagement expenses	19	-	-	19	2,208	-	2,208	2,227	3,256
Bank and merchant services fees	9,800	-	16	9,816	3,961	2,147	6,108	15,924	9,995
Office expenses	1,926	1,037	241	3,204	13,271	20	13,291	16,495	11,688
Advertising	2,383	-	-	2,383	277	854	1,131	3,514	10,568
Meals and entertainment	39	-	-	39	1,551	80	1,631	1,670	268
Dues and subscriptions	-	-	-	-	2,540	-	2,540	2,540	2,923
Conference fees	-	-	-	-	30	-	30	30	60
Bad debt expense	-	4,500	-	4,500	2,106	-	2,106	6,606	100
Miscellaneous	359	-	-	359	738	-	738	1,097	2,536
Total expenses	\$ 150,283	\$ 121,590	\$ 368,974	\$ 640,847	\$ 171,497	\$ 28,447	\$ 199,944	\$ 840,791	\$ 1,169,218

The accompanying notes are an integral part of the financial statements

Habitat for Humanity of the Upper Keys, Inc.

Statements of Cash Flows

Year Ended June 30, 2022

(With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Changes in net assets	\$ 5,141,247	\$ 170,277
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	157,256	67,226
Bad debts	6,606	-
Donation of land	(882,030)	-
Donation of ROGO credits	(3,029,952)	-
Imputed interest on non-interest bearing notes	(116,122)	(115,485)
Discount of mortgages on new home sales	-	198,963
Non-cash contribution	(2,631)	(65,113)
Changes in operating assets and liabilities		
Mortgages receivable, net	150,152	303,875
Prepaid expenses and other current assets	(19,648)	(3,967)
Grants and contributions receivable	(349,797)	(75,761)
Construction in progress - homes	(1,010,935)	(1,040,232)
Accounts payable and accrued expenses	(122,034)	37,431
Homeowners' escrow payable	2,825	18,966
Payroll and related liabilities	(108)	(7,994)
Net cash used in operating activities	<u>(75,171)</u>	<u>(511,814)</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,500)	(22,000)
Net cash used in investing activities	<u>(3,500)</u>	<u>(22,000)</u>
Net decrease in cash and cash equivalents	(78,671)	(533,814)
Cash and cash equivalents at beginning of year	<u>2,676,319</u>	<u>3,210,133</u>
Cash and cash equivalents at end of year	<u>\$ 2,597,648</u>	<u>\$ 2,676,319</u>

The accompanying notes are an integral part of the financial statements

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

1. Summary of Significant Accounting Policies

Nature of Operations

Habitat for Humanity of the Upper Keys, Inc. (the Organization) was incorporated in 1989 and is a tax-exempt, not-for-profit ministry whose mission is to provide low-income families with decent, affordable housing. The Organization is a local affiliate of Habitat for Humanity International, Inc. (HFHI).

In fulfilling its mission, the Organization builds homes in the Upper Keys, Florida, sells them to low-income families (homeowners) and holds non-interest bearing mortgage receivables with payments commensurate with the family's ability to pay. The Organization also provides prospective homeowners in its program with counseling and training to prepare them for home ownership and its responsibilities. Homeowners are required to pledge 300 to 500 hours of service to the building of their home or the homes of other Habitat homeowners.

The Organization receives support from the local community by enlisting volunteer labor when practical and soliciting donations of land, building materials, and cash necessary in its building efforts. These donations and the cash from the collection of mortgages receivable are used to continue building houses for those in need.

The Organization operates a resale store (ReStore) as a supporting service to raise funds. The resale store primarily sells household furnishings and receives its merchandise from donations.

Financial Statement Presentation

The 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 (GAAP). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time. In addition, net assets whose donor restrictions are met in the same reporting period are also considered to be net assets without donor restrictions.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature: those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2022 and 2021, the Organization had no net assets with donor restrictions.

Comparative Data

The amounts shown for the year ended June 30, 2021, in the accompanying financial statements are included to provide a basis for comparison with 2022 and present summarized totals only. Accordingly, the 2021 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

1. Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents

All highly liquid cash investments with original maturities of three months or less are considered to be cash equivalents.

Restricted Cash

Restricted cash represents deposits made by future homeowners for the purchase of homes and escrow payments made by current homeowners for property taxes and insurance.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents (deposit and money market accounts) and mortgages. The Organization maintains cash and cash equivalents in what it believes to be high quality financial institutions, which it believes limits its risk. As of June 30, 2022 and 2021, the Organization had approximately \$1.7 million and \$1.5 million, respectively, of balances in excess of insurance limits covered by the Federal Deposit Insurance Corporation (FDIC). Mortgages receivable are secured by real property.

Property and Equipment

Property and equipment are capitalized when the cost is in excess of \$1,000 and with a useful life over one year. Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Major renewals and improvements are capitalized, while repairs and maintenance expenditures are expensed as incurred. When items are retired or otherwise disposed of, the related costs and accumulated depreciation or amortization are removed from the accounts and any resulting gains or losses are recognized. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease.

The estimated useful lives of each asset group are as follows:

<u>Asset Group</u>	<u>Years</u>
Leasehold improvements and buildings	5 - 40
Office furniture and equipment	5 - 10
Computer equipment and software	3
Vehicles	2 - 5

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2022 and 2021 amounted to \$3,514 and \$10,568, respectively, and is included in the accompanying statements of functional expenses.

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

1. Summary of Significant Accounting Policies (cont.)

Homes Under Construction

Vacant land and construction in progress are stated at cost and include direct and indirect costs of housing construction, property taxes, and overhead incurred during the development period. Donated land and construction materials are required to be recorded at fair value at the time received. Land and offsite development costs associated with homes under construction are also included in construction in progress. Vacant land and construction in progress are evaluated for impairment if impairment indicators are present.

GAAP requires vacant land and construction in progress to be recorded at the lower of its carrying amount or fair value. Since the purpose and mission of the Organization is to build affordable housing for low-income families, the Organization does not generally write down the value of construction in progress to estimated sales value, because any excess cost over sales value is a component of program services.

Home Sales

Homes are sold to qualified buyers and the mortgage terms are based on the amount the purchaser is able to pay. Consideration received is mortgages receivable which are non-interest bearing. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at 7.49% and 7.23% for the years ended June 30, 2022 and 2021, respectively, based upon prevailing market rates for low-income housing at inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages with rates ranging from 7.23% to 8.34% and is recorded as interest income in the accompanying statements of activities and changes in net assets. During the year ending June 30, 2022 there were no home sales and during the year ending 2021, two homes were sold.

Mortgages Receivable

The Organization's mortgages consist of amounts due from homeowners. The Organization performs extensive credit and work history evaluations before the sale of a home. The Organization also has a perfected security interest in all homes they sell. Mortgage receivable balances are stated net of discount and if applicable, net of an allowance for uncollectible amounts based on management's judgment and analysis of the credit-worthiness of the homeowners, past payment experience, and other relevant factors. At June 30, 2022 and 2021, management determined that no allowance for mortgage receivables was necessary.

Contributions and Contributions Receivable

Contributions received with no restrictions or specified uses identified by the donor are included in net assets without donor restriction revenue in the statements of activities and changes in net assets when received. Contributions received with donor stipulations that limit the use of donated assets are reported as net assets with donor restriction revenue in the statements of activities and changes in net assets when received.

When donor restrictions expire or are fulfilled by actions of the Organization, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as revenue without donor restrictions in the accompanying statements of activities and changes in net assets.

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

1. Summary of Significant Accounting Policies (cont.)

Contributions and Contributions Receivable (cont.)

Contributions receivable that are expected to be collected in future years are recorded at their fair value based on the present value of their estimated future cash flows and are discounted at the rate applicable to the year in which the contribution was made (3.25% as of June 30, 2022 and 2021, respectively). The discount rates used reflect the assumptions about market risks that are not otherwise considered in the cash flows.

Sales - ReStore

Revenue related to the ReStore sales are recognized at the time of the sale. Donated merchandise is recorded at fair market value where objectively measurable.

Development and Public Relations Activities

The Organization's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 "Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that Included Fund Raising". FASB ASC 958 establishes criteria for accounting and reporting for any entity that solicits contributions.

Directly identifiable development and public relations activities expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Functional Allocation of Expenses

The cost of providing the various programs and other activities of the Organization has been summarized on a functional basis. Salaries and other expenses, which are associated with a specific program, are charged directly to that program. Salaries and other expenses, which benefit more than one program, are allocated to the various programs based on the time spent.

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

1. Summary of Significant Accounting Policies (cont.)

Donated Goods and Services

Donated services (in-kind donations) are recognized as contributions in accordance with FASB ASC No. 958, if the services create or enhance non-financial assets, or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. A number of unpaid volunteers have made contributions of their time by providing construction, administrative and fund-raising services to the Organization, the value of these amounts are not recorded because they don't require special skills. Donations of construction materials are received and used in the construction of homes. GAAP requires contributions (including donated materials) to be recorded at fair value at the date of receipt. During the year ended June 30, 2022, the Organization recognized in-kind donations for professional services and construction materials of approximately \$339 and \$2,600, respectively. Additionally, during the year ended June 30, 2022, the Organization recognized in-kind donations of land and ROGO points of approximately \$882,000 and \$3,030,000, respectively.

Income Taxes

The Organization received a determination (via Habitat for Humanity International, Inc.) from the Internal Revenue Service indicating that it is exempt from Federal income tax on all income except unrelated business income under Internal Revenue Code Section 501(c) (3); accordingly, no provision for income taxes has been recorded in the accompanying financial statements. For the years ended June 30, 2022 and 2021, the Organization had no unrelated business income tax resulting from unrelated business income.

The Organization accounts for uncertainty in income taxes in accordance with GAAP, which requires recognition in the accompanying financial statements of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization had no material unrecognized tax benefits and no adjustments to its financial position, activities or cash flows were required.

The Organization did not record any interest or penalties on uncertain tax positions in the statements of financial position as of June 30, 2022 and 2021 or the statements of activities and changes in net assets for the years then ended. If the Organization were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2018.

2. Mortgages Receivable, net

A home is considered sold when a formal closing transaction has been finalized. At that time, a first non-interest bearing mortgage is given to the homeowner based on the amount the homeowner is able to pay. The Organization records the revenue for the sale at the amount equal to the first mortgage net of imputed interest. If the fair value of the property is greater than the first mortgage, the Organization obtains a second mortgage for the difference of the sales price and the fair value. The second mortgage is to protect the value of the collateral and is not recorded in the books and records of the Organization. At the time the first mortgage is paid in full, the Organization cancels the second mortgage. As of June 30, 2022, the estimated annual repayment amounts on these mortgage receivable balances along with the unamortized discount were as follows:

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

2. Mortgages Receivable, net (cont.)

<i>For the year ending June 30,</i>		<i>Amount</i>
2023	\$	139,088
2024		137,317
2025		135,238
2026		134,317
2027		130,661
Thereafter		2,289,029
		2,965,650
Less unamortized discount		(1,547,384)
Mortgages receivable, net		1,418,266
Less current portion, net		(33,698)
Non-current portion, net	\$	1,384,568

3. Property and Equipment, net

Property and equipment, net at June 30, 2022 and 2021 consist of the following:

	2022	2021
Properties held for rental	\$ 1,926,611	\$ 1,926,611
Leasehold improvements	21,683	18,183
Construction equipment	4,831	6,612
Vehicles	28,225	28,225
Computer equipment and software	1,767	1,767
	1,983,117	1,981,398
Less: accumulated depreciation	(124,996)	(47,905)
Property and equipment, net	\$ 1,858,121	\$ 1,933,493

Depreciation expense was \$157,256 and \$67,226 for the years ended June 30, 2022 and 2021, respectively.

4. Homes Under Construction

Homes under construction at June 30, 2022 and 2021 consist of the following:

	2022	2021
Construction in progress	\$ 1,122,598	\$ 770,254
Land	70,023	70,023
Total	\$ 1,192,621	\$ 840,277

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

5. Grants and Contributions

Contributions, which are included in the statement of activities and changes in net assets, for the year ended June 30, 2022 consist of the following:

	Without Donor Restriction	With Donor Restriction	Total
Grants and Contributions			
Foundations and other charitable organizations	\$ 64,872	\$ -	\$ 64,872
Commerce and industry	255,055	-	180,055
Individuals	52,185	-	52,185
Grants-State Government	750,000	-	750,000
Total grants and contributions	\$ 1,122,112	\$ -	\$ 1,122,112

Contributions, which are included in the statement of activities and changes in net assets, for the year ended June 30, 2021 consist of the following:

	Without Donor Restriction	With Donor Restriction	Total
Contributions			
Individuals	\$ 131,175	\$ -	\$ 131,175
Commerce and industry	74,465	-	74,465
Foundations and other charitable organizations	213,347	-	213,347
Total contributions	\$ 418,987	\$ -	\$ 418,987

6. Grants and Contributions Receivable, net

Grants and contributions receivable, net consists of the following as of June 30, 2022 and 2021:

	2022	2021
Due in less than one year	\$ 523,330	136,637
Due in one to four years	45,000	93,000
Less: allowance for doubtful accounts	(39,000)	(39,000)
Less: unamortized discount on pledges	(2,978)	(7,477)
Contributions receivable, net	\$ 526,352	\$ 183,160

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

7. Net Assets with Donor Restrictions

The Organization did not have net assets with donor restrictions at June 30, 2022.

8. Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$	2,597,648
Current portion of mortgages receivable		139,088
Current portion of contributions receivable		484,330
Prepaid expenses		36,687
<hr/>		
Total	\$	3,257,753

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

9. Transactions with Affiliated Organization

During the years ended June 30, 2022 and 2021 the Organization contributed \$25,346 and \$18,778, respectively, to HFHI. These contributions are included in program services expense within the accompanying statements of functional expenses. These funds are used to construct homes in economically depressed areas around the world.

10. Related Party Transactions

The Organization contracts a construction company owned by a member of its board of directors to provide much of the construction of homes. The company provides discounted services to the Organization. During the years ended June 30, 2022 and 2021, the Organization paid \$386,921 and \$297,778 to this company, respectively. Payables to the company were \$110,760 and \$38,753 as of June 30, 2022 and 2021, respectively.

11. Mortgage Servicing Agreement

On May 1, 2020, the Organization transferred its mortgage servicing activities to Affiliate Mortgage Services, a third-party mortgage service provider. This agreement allows Affiliate Mortgage Services to collect all payments due under the terms of the mortgage loans and keep a complete, accurate and separate accounting of all sums collected by it from mortgagors. The agreement also provides that Affiliate Mortgage Services will act as the escrow agent for Homeowners who have obtained mortgages through the purchase of a home from Habitat. The Organization paid servicing fees to Affiliate Mortgage Services of \$3,906 and \$3,853 during the years ended June 30, 2022 and 2021, respectively.

Habitat for Humanity of the Upper Keys, Inc.

Notes to Financial Statements For the Year Ended June 30, 2022 (With Summarized Comparative Financial Information for the Year Ended June 30, 2021)

12. Ground Lease Agreement

The Organization entered into an agreement with the Village Council of Islamorada, Village of Islands (the “Village”), on July 23, 2018 to lease land in order to develop affordable housing units. Under the terms of the agreement, the Organization was authorized to construct sixteen (16) housing units, but is required to use no less than 50% of the units for rental use to qualified tenants.

The lease term commenced on the date the first certificate of occupancy was received in January 2021 and is for a term of ninety-nine years. The lease requires rental payments of \$1,600 per year for 15 years starting one year after the commencement date for a total of \$24,000 due no later than December 31, 2038. The Organization may assign its interest in this lease for any portions of the land to a homeowner who purchases a home with the authorization of the Village.

Construction of the property was completed during the year ended June 30, 2021. As of June 30, 2022, two of the units had been sold and the remaining units were rented. Subsequent to June 30, 2022, an additional unit was sold.

The 8 units that are required to be held for rental are reflected within the accompanying statement of financial position within property and equipment, net. The remaining units that will be sold are reflected within the accompanying statement of financial position within rental properties held for sale, net.

13. Non-Cash Transactions

The Organization did not close on any home sales during the year ended June 30, 2022. The Organization had the following non-cash transactions in reference to the sale of homes for the year ended June 30, 2021:

Gross sale of homes	\$	426,089
Less payment received		(90,000)
<hr/>		
Non-cash sale of homes financed through mortgage receivables	\$	336,089

13. Subsequent Events

The Organization has evaluated all subsequent events through March 16, 2023, which is the date these financial statements were available to be issued. The Organization had no subsequent events to disclose.

SUPPLEMENTAL INFORMATION

Habitat for Humanity of the Upper Keys, Inc.
Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2022

<u>State Agency Name:</u>	<u>CSFA Number</u>	<u>Agreement Number</u>	<u>Grant Award</u>	<u>Expenditures</u>
State of Florida Department of Economic Opportunity Division of Housing and Community Development	40.038	HL127	<u>\$ 750,000</u>	<u>\$ 750,000</u>
Total Expenditures of State Financial Assistance				<u>\$ 750,000</u>

Habitat for Humanity of the Upper Keys, Inc.

Notes to Schedule of State Financial Assistance For the Year Ended June 30, 2022

Note 1- Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the “Schedule”) presents the activity of all state award programs of Habitat for Humanity of the Upper Keys, Inc., for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the Organization’s operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity of the Upper Keys, Inc.

State financial assistance is financial assistance from state resources to non-state organizations to carry out a state project. It does not include federal financial assistance and state matching provided by state agencies for federal programs.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Chapter 10.650, Rules of the Auditor General, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



Menendez & Company
Certified Public Accountants

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 of the Upper Keys, Inc.
Key Largo, 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 for Humanity of the Upper Keys, Inc, which comprise the statement of financial position as of June 30, 2022, 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 March 16, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of the Upper Keys, Inc's internal control over financial reporting (internal control) as a basis for designing 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 Habitat for Humanity of the Upper Keys, Inc's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of the Upper Keys, Inc'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 Habitat for Humanity of the Upper Keys, 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*

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

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.

Menendez & Company

Pembroke Pines, FL
March 16, 2023



Menendez & Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE
AUDITOR GENERAL

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

Report on Compliance for Each Major State Project

Opinion on Each Major State Project

We have audited Habitat for Humanity of the Upper Keys, Inc's compliance with the types of compliance requirements identified in the *Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity of the Upper Keys, Inc's major State projects for the year ended June 30, 2022. Habitat for Humanity of the Upper Keys, Inc's major State projects 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 of the Upper Keys, Inc's 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 State projects for the year ended June 30, 2022.

Basis for Opinion on Each Major State Project

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 *Chapter 10.650, Rules of the Auditor General*. Our responsibilities under those standards and Chapter 10.650, Rule of the Auditor General 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 of the Upper Keys, Inc's and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state project. Our audit does not provide a legal determination of Habitat for Humanity of the Upper Keys, Inc's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Habitat for Humanity of the Upper Keys, Inc's state projects.

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

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 of the Upper Keys, 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 *Chapter 10.650, Rules of the Auditor General* 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 of the Upper Keys, Inc's compliance with the requirements of each major state project as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and *Chapter 10.650, Rules of the Auditor General*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Habitat for Humanity of the Upper Keys, 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 of the Upper Keys, 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 *Chapter 10.650, Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of the Upper Keys, 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 state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project 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 state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

To the Board of Directors of
Habitat for Humanity of the Upper Keys, Inc.
Key Largo, Florida

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 *Chapter 10.650, Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Menendez & Company

Pembroke Pines, FL
March 16, 2023

Habitat for Humanity of the Upper Keys, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Summary of
Auditor's Results

SECTION I – SUMMARY OF AUDITORS' REPORT

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | No |
| c. Noncompliance material to financial statements noted? | No |

State Projects:

- | | |
|--|------------|
| 1. Type of auditors' report issued on compliance for major state projects | Unmodified |
| 2. Internal controls over major projects: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | No |
| 3. Any audit findings disclosed that are required to be reported under Section 10.650, Rules of the Auditor General? | No |

4. Identification of major state projects:

<u>CSFA Number</u>	<u>Name of State Project</u>	<u>Expenditures</u>
40.038	Department of Economic Opportunity Division of Community Development	\$750,000

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

SECTION II – FINANCIAL STATEMENTS FINDING

There were no findings to report.

SECTION III – STATE PROJECTS FINDINGS

There were no findings to report.

No management letter is required because there were no findings required to be reported.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit finding related to state projects.