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October 29, 2018

To the Board of Directors of
Habitat for Humanity of Central Arkansas, Inc.
Little Rock, Arkansas

In planning and performing our audit of the consolidated financial statements of Habitat for Humanity of Central Arkansas, Inc. as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Habitat for Humanity of Central Arkansas, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing 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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal controls was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, the board of directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Jaye P. Gasaway, CPA, P.A.

Little Rock, Arkansas



Consolidated Financial Statements

**As of and For the Years Ended
June 30, 2018 and 2017**

(With Independent Auditor's Report Thereon)

**Jaye P. Gasaway, CPA, P.A.
417 Main Street
Little Rock, Arkansas**

Habitat for Humanity of Central Arkansas, Inc.
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June 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors of
Habitat for Humanity of Central Arkansas, Inc.
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Central Arkansas, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity of Central Arkansas, Inc. as of June 30, 2018 and 2017, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jayne P. Gasaway, CPA, P.A.

Little Rock, Arkansas
October 29, 2018

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Financial Position

As of June 30, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash and cash equivalents	\$ 552,834	\$ 1,013,967
Current portion of mortgage loans receivable	267,795	282,556
Current portion of lease purchase agreements	25,997	15,126
Homes under construction	449,662	307,012
Certificate of deposit	144,873	143,171
Other current assets	67,388	68,434
Total current assets	1,508,549	1,830,266
Property and equipment, net	3,504,986	3,220,713
Non-interest bearing mortgage loans receivable, net	5,465,530	5,581,257
Discount on non-interest bearing mortgage loans receivable	(3,390,050)	(3,557,016)
Net present value of mortgage loans receivable	2,075,480	2,024,241
Grants receivable	101,985	56,000
Lease purchase agreements	171,845	184,619
Real estate owned	229,352	205,800
Beneficial interest held by others	13,008	12,590
Total assets	\$ 7,605,205	\$ 7,534,229

Liabilities and Net Assets

	2018	2017
Current liabilities		
Accounts payable and accrued expenses	\$ 359,530	\$ 35,414
Total current liabilities	359,530	35,414
Total liabilities	359,530	35,414
Net assets		
Unrestricted	7,245,675	7,498,815
Total net assets	7,245,675	7,498,815
Total liabilities and net assets	\$ 7,605,205	\$ 7,534,229

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Activities For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Home sales	\$ 477,717	\$ 387,500
Unrestricted contributions	139,088	249,227
Grants and awards	356,444	113,589
Restore sales	1,354,671	1,250,333
Mortgage loan discount amortization	279,278	389,595
Fundraisers and events	82,606	128,230
Interest income	13,586	10,175
Change in beneficial interest	974	1,307
Gain (loss) on lot sales	10,293	15,347
Other gains and losses	24,640	(50,452)
Miscellaneous	92,585	(46,454)
Total unrestricted revenues and other support	<u>2,831,882</u>	<u>2,448,397</u>
Expenses		
Program services	2,678,102	2,232,848
Management and general	259,431	164,160
Fund-raising	147,489	212,123
Total expenses	<u>3,085,022</u>	<u>2,609,131</u>
Change in unrestricted net assets	<u>(253,140)</u>	<u>(160,734)</u>
Net assets at beginning of year	<u>7,498,815</u>	<u>7,659,549</u>
Net assets at end of year	<u>\$ 7,245,675</u>	<u>\$ 7,498,815</u>

Habitat for Humanity of Central Arkansas, Inc.
Consolidated Statement of Functional Expenses
For the Years Ended June 30, 2018 and 2017

	Program Services	Management & General	Fundraising	Total	2017 Total
Salaries, wages and fringe benefits	\$ 651,634	\$ 148,477	\$ 53,752	\$ 853,863	\$ 622,966
Payroll taxes	155,468	52,194	35,310	242,972	198,880
Cost of homes sold	730,637	-	-	730,637	829,138
Neighborhood revitalization	69,358	-	-	69,358	45,081
Resale merchandise	167,922	-	-	167,922	102,325
Sales tax	6,046	-	-	6,046	11,945
Depreciation	100,738	6,586	6,586	113,910	111,931
Insurance	41,372	10,365	-	51,737	27,741
Mortgage discounts	197,422	-	-	197,422	226,356
Supplies	23,741	5,154	560	29,455	43,346
Professional fees	54,306	22,953	-	77,259	55,033
Rent	53,560	-	-	53,560	52,500
Real estate taxes	3,012	-	-	3,012	1,606
Utilities	34,266	5,238	-	39,504	29,926
Telephone	15,320	499	499	16,318	14,512
Computer and internet	4,015	3,113	3,247	10,375	10,466
Advertising	81,617	-	11,365	92,982	66,097
Automobile and fuel expenses	41,519	996	-	42,515	35,872
Repairs and maintenance	60,445	3,856	-	64,301	14,465
Dues and subscriptions	15,994	-	7,479	23,473	16,679
Meals and entertainment	15,388	-	-	15,388	11,970
Conferences	8,332	-	-	8,332	41,033
Fundraising expenses	-	-	26,923	26,923	24,502
Tithes	7,500	-	-	7,500	11,250
Other	138,490	-	1,768	140,258	3,511
Totals	\$ 2,678,102	\$ 259,431	\$ 147,489	\$ 3,085,022	\$ 2,609,131

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Cash Flows For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (253,140)	\$ (160,734)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	113,910	111,931
Mortgage loan discount amortization	(279,278)	(389,595)
Mortgage discounts	197,422	226,356
New mortgage loans issued	(477,717)	(387,500)
Principal payments received on mortgage loans	383,820	699,750
New lease purchase agreements	-	(116,200)
Principal payments received on lease purchase agreements	27,268	46,280
Changes in operating assets and liabilities		
Homes under construction	(142,650)	190,381
Other current assets	1,046	15,248
Grants receivable	(45,985)	(7,000)
Real estate owned	(23,552)	(199,111)
Accounts payable and accrued expenses	324,116	5,167
Net cash provided by (used for) operating activities	(174,740)	34,973
Cash Flows from Investing Activities		
Reinvestment in certificate of deposit	(1,702)	(1,417)
Purchase of fixed assets	(284,273)	(13,500)
Rebate from fixed asset purchase	-	34,021
Change in beneficial interest held by others	(418)	(1,307)
Net cash provided by (used for) investing activities	(286,393)	17,797
Net change in cash and cash equivalents	(461,133)	52,770
Cash and cash equivalents, beginning of year	1,013,967	961,197
Cash and cash equivalents, end of year	\$ 552,834	\$ 1,013,967

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements
June 30, 2018 and 2017

Note 1: Organization and Purpose

Habitat for Humanity of Central Arkansas, Inc. (“HHCA” or the “Organization”) was incorporated on July 11, 1989. HHCA is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publication, prayer support, and in other ways, HHCA is primarily and directly responsible for its own operations. HHCA also operates three Restores in the City of Little Rock, North Little Rock, and Cabot, Arkansas. The purpose of the Restore is to provide funding for the Organization’s mission. Individuals donate household items and other goods for resale. The proceeds from the resale benefit HHCA.

Additionally, in an effort to increase the supply of affordable housing units in Pulaski County, HHCA established Pulaski County Neighborhood Alliance for Habitat (“PCNAFH”), which is considered a community housing development organization exempt from income tax under IRS Section 501(c)(3). The primary purpose of the PCNAFH is to assist with obtaining additional funding that is specifically reserved for community housing development organizations.

Principles of Consolidation

The accompanying financial statements are consolidated to include the accounts of HHCA and PCNAFH. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Summary of Significant Accounting Policies

Cash and Cash Equivalents

HHCA considers deposits on account and investments with maturity dates of less than three months at the time of purchase to be cash. At various times throughout the year, the Organization has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured portion of these accounts as of June 30, 2018 totaled \$2,939.

ReStore Inventory

HHCA accepts non-cash donations for resale through the operation of two Restore facilities. Management has been unable to determine a reasonable estimate for the value of these contributions and, as such, the Restore inventory is not carried on the balance sheet. Revenue is recognized at the time of resale. Management believes the effect is immaterial to the financial statements taken as a whole.

Homes under Construction

Costs incurred in conjunction with home construction are recorded as homes in progress. When a home is sold, the associated cost is removed from homes in progress. The specific identification method is used in determining the cost of a home sold.

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2018 and 2017

Note 2: Summary of Significant Accounting Policies (Continued)

Property and Equipment

It is the policy of HHCA to capitalize property and equipment with an economic life greater than one year with cost in excess of \$5,000. Purchased property and equipment is capitalized at cost and depreciated using the straight-line method. Contributed property and equipment is capitalized at the estimated fair market value at the time of the contribution and is depreciated using the straight-line method. Management has estimated the following useful lives of fixed assets:

	<u>Years</u>
Building and improvements	8 – 40
Vehicles	5
Computers	3
Furniture and equipment	5 – 10

Non-Interest Bearing Mortgage Loans Receivable

Mortgages receivable are stated at the amount management expects to collect from balances outstanding at year-end, net of an allowance for loan losses and discounts for non-interest bearing loans. Management determines an allowance for loan losses based on its assessment of the credit history with mortgagees having outstanding balances and the estimated fair market value of the collateral compared to the mortgages' carrying value. As of June 30, 2018 and 2017, HHCA recorded an allowance of \$181,364 and \$153,315, respectively. The current portion of mortgages receivable is estimated based on principal payments expected within one year of the balance sheet date and is reported net of estimated amortization of the mortgage discount.

Management records the discount for non-interest bearing mortgages using the effective interest method. Interest income is recognized through amortization of the mortgage discount over the life of the mortgage. The discount rate is provided by Habitat for Humanity International and is determined based on prevailing market rates for low income housing at the inception of the agreement, which currently range from 6% to 10%. As of June 30, 2018 and 2017, mortgage discounts totaled \$3,390,050 and \$3,557,016, respectively. For the years ended June 30, 2018 and 2017, mortgage discount amortization totaled \$279,278 and \$389,595, respectively.

Lease Purchase Agreements

Lease purchase agreements are recorded at the stated lease value on the date of inception and is reflected in the statement of financial position as both a short-term (current portion) and long-term asset.

Grants Receivable

Grants receivable are recorded at the amounts to be received by the Federal Home Loan Bank, as agreed upon in each home sale, where applicable. Once a grant has been received, the receivable is reduced by the amount collected.

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2018 and 2017

Note 2: Summary of Significant Accounting Policies (Continued)

Real Estate Owned

Real estate owned is recorded at the estimated fair market value on the date the title is passed to HHCA. HHCA evaluates all real estate holdings for impairment on an annual basis and adjusts accordingly if such values have been impaired. Increases in market value of real estate are not recognized.

Revenue Recognition – Home Sales

Home sales are recorded at the gross mortgage amount plus any down payment received. HHCA sold five and six homes during years ended June 30, 2018 and 2017, respectively. PCNAFH sold zero and four homes during the year ended June 30, 2018 and 2017, respectively. Any grant that is received to further subsidize the homeowners' purchase price is reflected as grants and awards in the accompanying statements of activities and changes in net assets. All mortgages receivable are non-interest bearing and payable in monthly installments over the life of the mortgage. All mortgages are secured by real estate.

Income Taxes

HHCA has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to HFHI by the Internal Revenue Service other than unrelated business income. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

Interest and penalties, and the associated tax expense, related to uncertain tax positions, when applicable, will be recorded as income tax expense as the positions are recognized. The last three tax years are open for potential examination by the IRS. As of June 30, 2018, HHCA had not identified any significant uncertain tax positions.

Fair Value Measurements

Management determines the fair values of financial instruments based on the fair value hierarchy established, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect management's estimates about market data.

- Level I: Quoted prices in active markets for identical assets and liabilities.

- Level II: Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2018 and 2017

Note 2: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Donated Services

A substantial number of volunteers have made significant contributions of their time to HHCA's program and supporting services. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurements or valuation.

Advertising Expenses

HHCA uses advertising to promote its programs among the population it serves. Advertising costs are expensed as incurred. For the years ended June 30, 2018 and 2017, advertising expense was \$92,982 and \$66,097, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates in Financial Statements

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation. There was no effect on the Organization's change in net assets or financial position as a result of these changes.

Note 3 – Contingent Receivables

HHCA secures second mortgages on each property at the time of sale. These second mortgages reflect the approximate difference between the fair market values of the properties and the sales prices. These mortgages are forgiven ratably over five to twenty-year periods so long as the purchaser remains with the property. If the property is sold by the original purchaser or foreclosed, the remaining balance on the second mortgages must be repaid to the mortgage holder along with the balance due on the first mortgage. No contingent receivable or offsetting deferred revenue are recorded in these financial statements, but the practice is being disclosed for informational purposes. The amount that may be collected is undetermined.

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2018 and 2017

Note 4 – Grants Receivable

HHCA is a beneficiary of grants from the Federal Home Loan Bank. The Organization recognizes grant revenue as earned. A portion of grants receivable represents that portion of grants revenue recognized, but not yet collected.

Note 5 – Beneficial Interest in Organization Endowment Fund

In 2010, HHCA contributed \$10,000 to the Arkansas Community Foundation (ARCF), for the purpose of establishing an Organization Endowment Fund (Fund) to be held and administered by ARCF. The purpose of the Fund is to provide support for HHCA.

The fair value of the beneficial interest is measured using the fair value of the assets held in the trust as reported by ARCF. HHCA considers the fair value measurement to be a Level III measurement within the fair value hierarchy because, even though that measurement is based on the unadjusted fair values of the Fund assets reported by ARCF, HHCA will never receive those assets or have the ability to direct the trustee to redeem them.

Note 6 – Related Party Transactions

For the years ended June 30, 2018 and 2017, HHCA contributed \$7,500 and \$11,250, respectively, to HFHI to benefit its international building projects and is reported in the accompanying statement of functional expenses as tithes.

For the years ended June 30, 2018 and 2017, HHCA received various contributions from HFHI in the amounts of \$45,000 and \$33,589, respectively. These grants are used provide funding for construction of homes for low income individuals.

For the years ended June 30, 2018 and 2017, donations from the Board of Directors and HHCA's employees totaled \$14,000 and \$23,675, respectively.

Note 7 – Simple IRA Plan

During the 2014 fiscal year HHCA established a Simple IRA plan. Full-time employees are eligible to participate in the Simple IRA plan after one year of employment. HHCA matches up to 3% of eligible employees' elective deferrals. For the years ended June 30, 2018 and 2017, the total expense related to the matching provision was \$3,154 and \$11,070, respectively.

Note 8 – Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. HHCA's policy is to recognize these costs when paid.

Note 9 – Lease Commitment

Effective January 1, 2018, HHCA renewed its lease for the NLR Restore space for an additional 3 years, which requires an annual lease payment of \$52,500. HHCA has the option to renew the lease for an additional three-year term.

Habitat for Humanity of Central Arkansas, Inc.
Notes to the Consolidated Financial Statements (Continued)
June 30, 2018 and 2017

Note 9 – Lease Commitment (Continued)

Future minimum lease payments under the obligation are as follows:

2018	\$	26,250
2019		52,500
2020		52,500
Total	\$	<u>131,250</u>

Note 10 – Subsequent Events

Subsequent to June 30, 2018, the date of the most recent statement of financial position, HHCA was notified by the Arkansas Development Finance Authority that it would be in receipt of approximately \$494,000 by the end of the second quarter of 2019 for construction costs incurred as part of a redevelopment effort in the City of North Little Rock.

The date to which events occurring after June 30, 2018, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is October 29, 2018, which is the date the financial statements were available to be issued.