



Consolidated Financial Statements

**As of and For the Year Ended
June 30, 2020**

(With Independent Auditor's Report Thereon)

Gasaway & Company, CPAs

Accountants & Advisors

501 North University Avenue

Little Rock, Arkansas 72205

Habitat for Humanity of Central Arkansas, Inc.
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Independent Auditor's Report

To the Board of Directors
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. and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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. and its subsidiary as of June 30, 2020, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, consisting of the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of insurance in force, as listed in the table of contents 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 information 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 December 31, 2020 on our consideration of Habitat for Humanity of Central Arkansas, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 Central Arkansas, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Central Arkansas, Inc.'s internal control over financial reporting and compliance.

Gosawany & Company, CPAs

Little Rock, Arkansas
December 31, 2020

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Financial Position

As of June 30, 2020

Assets

Current assets

Cash and cash equivalents	\$ 986,206
Current portion of mortgage loans receivable	343,890
Homes under construction	1,296,714
Other current assets	55,799
Total current assets	<u>2,682,609</u>

Property and equipment, net

1,762,977

Non-interest bearing mortgage loans receivable, net

5,819,198

Discount on non-interest bearing mortgage loans receivable

(3,556,347)

Net present value of mortgage loans receivable

2,262,851

Grants receivable

27,581

Lease purchase agreements

140,233

Beneficial interest held by others

13,008

Total assets

\$ 6,889,259

Liabilities and Net Assets

Current liabilities

Accounts payable and accrued expenses	\$ 172,790
Total current liabilities	<u>172,790</u>

PPP Loan Payable

223,000

Total liabilities

395,790

Net assets

Unrestricted	6,493,469
Total net assets	<u>6,493,469</u>

Total liabilities and net assets

\$ 6,889,259

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Activities

For the Year Ended June 30, 2020

	<u>2020</u>
Revenues	
Home sales	\$ 599,364
Contributions	188,055
Grants and awards	1,274,562
ReStore sales	1,034,770
Mortgage loan discount amortization	324,468
Fundraisers and events	2,500
Interest income	8,974
Gain (loss) on lot sales	(50,453)
Other gains and (losses)	(20,575)
Miscellaneous	8,643
Total unrestricted revenues and other support	<u>3,370,308</u>
Expenses	
Program services	3,986,125
Management and general	113,892
Fundraising	166,379
Total expenses	<u>4,266,396</u>
Change in unrestricted net assets	<u>(896,088)</u>
Net assets at beginning of year	<u>7,472,973</u>
Prior Period Adjustments	(83,416)
Net assets at end of year	<u><u>\$ 6,493,469</u></u>

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Functional Expenses

For the Year Ended June 30, 2020

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and fringe benefits	\$ 911,696	\$ 53,629	\$ 107,259	\$ 1,072,584
Payroll taxes	60,860	3,580	7,160	71,600
Cost of homes sold	700,454	-	-	700,454
Neighborhood revitalization	86,810	-	-	86,810
Resale merchandise	97,126	-	-	97,126
Taxes and licenses	19,233	1,131	2,263	22,627
Depreciation	112,225	6,601	13,203	132,029
Insurance	41,462	2,439	4,878	48,779
Mortgage discounts	218,574	-	-	218,574
Supplies	13,558	-	-	13,558
Professional fees	15,284	15,284	-	30,568
Rent	52,500	-	-	52,500
Utilities	46,934	2,761	5,522	55,217
Telephone	12,736	749	1,499	14,984
Computer and internet	11,792	694	1,387	13,873
Advertising	4,188	-	4,187	8,375
Automobile and fuel expenses	50,652	2,980	5,959	59,591
Repairs and maintenance	27,245	1,603	3,205	32,053
Dues and subscriptions	2,410	14,462	2,411	19,283
Meals and entertainment	-	4,782	-	4,782
Conferences	57	1,023	57	1,137
Fundraising expenses	-	-	3,040	3,040
Tithes	1,000	-	-	1,000
Other	25,627	2,174	4,349	32,150
Impairment	1,473,702	-	-	1,473,702
Totals	<u>\$ 3,986,125</u>	<u>\$ 113,892</u>	<u>\$ 166,379</u>	<u>\$ 4,266,396</u>

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Cash Flows

For the Year Ended June 30, 2020

	<u>2020</u>
Cash Flows from Operating Activities	
Change in net assets	\$ (896,087)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities	
Depreciation	132,029
Mortgage loan discount amortization	(308,820)
Mortgage discounts	218,574
New mortgage loans issued	(599,364)
Principal payments received on mortgage loans	289,100
Principal payments received on lease purchase agreements	45,221
Changes in operating assets and liabilities	
Homes under construction	(769,330)
Other current assets	44,728
Grants receivable	28,419
Real estate owned	230,053
Accounts payable and accrued expenses	224,285
Net cash provided by (used for) operating activities	<u>(1,361,192)</u>
Cash Flows from Investing Activities	
Redemption of certificate of deposit	98,396
Purchase of fixed assets	(5,124)
Disposal of fixed assets	73,500
Building impairment	1,473,702
Net cash provided by (used for) investing activities	<u>1,640,474</u>
Net change in cash and cash equivalents	279,282
Cash and cash equivalents, beginning of year	<u>706,924</u>
Cash and cash equivalents, end of year	<u>\$ 986,206</u>

Habitat for Humanity of Central Arkansas, Inc.
Notes to Consolidated Financial Statements
June 30, 2020

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.

ReStore Inventory

HHCA accepts non-cash donations for resale through the operation of three 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 under construction. When a home is sold, the associated cost is removed from homes under construction and classified to cost of homes sold in the statement of functional expenses. The specific identification method is used in determining the cost of a home sold.

Habitat for Humanity of Central Arkansas, Inc.
Notes to Consolidated Financial Statements
June 30, 2020

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:

	Years
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 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. HHCA has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principal plus costs to sell the home.

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, 2020, mortgage discounts totaled \$3,556,347. For the years ended June 30, 2020, mortgage discount amortization totaled \$324,468.

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 grantor, as agreed upon in each grant agreement, 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 Consolidated Financial Statements
June 30, 2020

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 homes during years ended June 30, 2020 and 2019. PCNAFH sold one home and three homes during the year ended June 30, 2020 and 2019, 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, 2020, 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 Consolidated Financial Statements
June 30, 2020

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, 2020 and 2019, advertising expense was \$8,375 and \$64,898, 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 2019 consolidated financial statements to conform to the 2020 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

For some borrowers, HHCA secures a second mortgage 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 Consolidated Financial Statements
June 30, 2020

Note 4 – 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.

Note 5 – Related Party Transactions

For the years ended June 30, 2020 and 2019, HHCA contributed \$1,000 and \$4,500, 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, 2020 and 2019, HHCA received various contributions from HFHI in the amounts of \$5,037 and \$35,000, respectively. These grants are used provide funding for construction of homes for low income individuals.

For the years ended June 30, 2020 and 2019, donations from the Board of Directors and HHCA’s employees totaled \$4,250 and \$9,850, respectively.

Note 6 – 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, 2020, the total expense related to the matching provision was \$6,211.

Note 7 – 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 8 – 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 elected not to renew the lease for an additional three-year term. As such, the lease agreement expires on January 1, 2021. Future minimum lease payments under the obligation are as follows:

2021	\$	26,250
Total	\$	<u>26,250</u>

Habitat for Humanity of Central Arkansas, Inc.
Notes to Consolidated Financial Statements
June 30, 2020

Note 9 – Subsequent Events

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. At this stage, the impact on the HHCA's business and activities has not been significant, and based on the HHCA's experience to date, that is expected to remain the case. HHCA will continue to follow various government policies and advice, as well as continue operations in the best and safest way possible without jeopardizing the health of the HHCA's people.

Habitat for Humanity of Central Arkansas, Inc. has sold one of its Restores in Cabot, Arkansas subsequent to the year ended June 30, 2020. The sales price for the building was \$235,623 and incurred a loss of \$81,057.

Habitat for Humanity of Central Arkansas, Inc. has evaluated subsequent events through December 31, 2020, which is the date the financial statements were available to be issued. Habitat for Humanity of Central Arkansas, Inc. is not aware of any material subsequent events.

Note 10 – Paycheck Protection Program

On April 14, 2020, Habitat for Humanity of Central Arkansas ("the Borrower"), was granted a loan (the "Loan") from IberiaBank in the aggregate amount of \$223,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The Loan, which was in the form of a Note dated April 14, 2020 issued by the Borrower, matures on April 14, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 14, 2020. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. HHCA intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

Note 11 – Building Impairment

During 2020, Habitat for Humanity of Central Arkansas, Inc. had an appraisal conducted on the building housing the Little Rock ReStore and main offices. The building had been valued at \$3,730,179 since its acquisition. The appraisal revalued the building at \$2,256,477. HHCA recognized the fixed asset impairment on the building in the amount of \$1,473,702 for the year ended June 30, 2020.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

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 Central Arkansas, Inc., which comprise the statement of financial position as of June 30, 2020, 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 December 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Central Arkansas, Inc.'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 Habitat for Humanity of Central Arkansas, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Central Arkansas, 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Central Arkansas, 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Garaway & Company, CPAs

Little Rock, Arkansas
December 31, 2020

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**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance**

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

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of Central Arkansas, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity of Central Arkansas, Inc.'s major federal programs for the year ended June 30, 2020. Habitat for Humanity of Central Arkansas, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity of Central Arkansas, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of Central Arkansas, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity of Central Arkansas, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity of Central Arkansas, Inc. 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 major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of Habitat for Humanity of Central Arkansas, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity of Central Arkansas, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Central Arkansas, Inc.'s 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 federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 federal program 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 federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gateway Company, CRAs

Little Rock, Arkansas
December 31, 2020

Habitat for Humanity of Central Arkansas, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Summary of Auditor's Results

Financial Statements

1. The independent auditor's report expressed an unmodified opinion on the financial statements of Habitat for Humanity of Central Arkansas, Inc., in accordance with accounting principles generally accepted in the United States of America.
2. The independent auditor's report on internal control over financial reporting disclosed no significant deficiencies or material weaknesses.
3. No instances of noncompliance material to the financial statements of the Habitat for Humanity of Central Arkansas, Inc. were disclosed during the audit.

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed no significant deficiencies or material weaknesses.
5. The independent auditor's report expressed an unmodified opinion on compliance for the major federal award.
6. The audit disclosed no findings required to be reported by 2 CFR 200.516(a).
7. Habitat for Humanity of Central Arkansas, Inc.'s major program was the United States Department of Housing and Urban Development (HUD) – HOME Investment Partnerships Program (CFDA 14.239).
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Habitat for Humanity of Central Arkansas, Inc. did not qualify as a low-risk auditee.

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Findings Required to be Reported by the *Uniform Guidance*

No matters are reportable.

Habitat for Humanity of Central Arkansas, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2020

No matters are reportable.

Habitat for Humanity of Central Arkansas, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development Passed through the State of Arkansas		
Arkansas Department of Finance and Administration		
HOME Investment Partnerships Program	14.239	\$ 707,332
Housing Trust Fund	14.275	<u>272,844</u>
		<u>\$ 980,176</u>

The accompanying notes are an integral part of this schedule.

Habitat for Humanity of Central Arkansas, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Habitat for Humanity of Central Arkansas, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of Habitat for Humanity of Central Arkansas, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat for Humanity of Central Arkansas, Inc.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
3. Habitat for Humanity of Central Arkansas, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.