Habitat for Humanity of Greater Cincinnati

Report to The Board of Trustees

June 30, 2022

FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

FLAGEL HUBER FLAGEL
CPAs & BUSINESS ADVISORS

November 29, 2022

Board of Trustees
Habitat for Humanity of Greater Cincinnati
4910 Para Drive
Cincinnati, Ohio 45237

To the Trustees of the Board:

We are pleased to present this report related to our audit of the financial statements of Habitat for Humanity of Greater Cincinnati ("Habitat") for the year ended June 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility.

This information is intended solely for the use of the Board of Trustees and management of Habitat and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Flagel Huber Flagel

FLAGEL HUBER FLAGEL

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Required Communications

Professional auditing standards require the auditor to communicate certain matters to those charged with governance. This information is indented to keep them adequately informed about matters related to the financial statement audit that are significant and relevant in the financial reporting process.

The following summarizes these communications.

Topic	***Communication***
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and may not be detected by us.
Planned Scope and Timing of the Audit	We performed the audit according to our planned scope as previously communicated to you in the engagement letter dated February 22, 2022. The nature, timing and extent of our audit procedures were based on our review and understanding of management's internal control over financial reporting, our understanding of Habitat's operations, the industry in which it operates, and our assessment of the various risks associated with the balances and transactions that impact the financial statements. No restrictions were placed on the scope of our work, and we were provided all information that we requested. In addition, we had direct access to all members of management and staff to obtain information as appropriate and required in the conduct of our audit. All of our audit objectives were satisfactorily achieved.

Topic	***Communication***
Accounting Practices – Adoption of, or change in accounting policies	Management has the ultimate responsibility for the appropriateness and quality of Habitat's accounting practices. The quality includes the consistency of the accounting policies and their application, the clarity and completeness of the financial statements, and includes items that have a significant impact on the representational faithfulness, verifiability, and neutrality of the accounting information included in the financial statements. During the year, Habitat adopted accounting policies to comply with new accounting standards as follows: 1. ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure.
Accounting Practices – Significant or unusual transactions	We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. We do point out the transactions related to the PPP loan are identified as unusual.
Accounting Practices – Alternative treatments discussed with Management	We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Audit Adjustments	Management has recorded all significant adjustments and they are reflected in the audited financial statements.

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Required Communications

(Continued)

Topic	*Communication*
Uncorrected Misstatements	Management has determined that all uncorrected misstatements are immaterial to the financial statements.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, and the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Certain Written Communications Between Management and Our Firm	Written communications between our firm and management include our engagement letter and management's representation letter to us.

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Summary of Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. The following describes the significant accounting estimates reflected in Habitat's financial statements:

Area	*Accounting Policy*	*Estimation Process*	*Comments*
Allocation of functional expenses	Habitat allocates expenses to program and supporting services.	Management estimates the allocation based on knowledge of operations and the time spent by personnel in these areas.	We have reviewed the allocation and determined that management's process is reasonable, consistent with prior periods and appropriate.
Useful lives of property and equipment	Habitat estimates the useful lives of its property and equipment.	Habitat estimates the useful lives of these assets based on historical actual useful lives and the intended use of the property.	We have reviewed the assigned useful lives and determined that management's process is reasonable, consistent with prior periods and appropriate.
Fair value of in-kind contributions	The value of in-kind contributions is estimated by management.	Management's estimate is based on market values of similar items if they had been purchased.	We have reviewed the values of in-kind contributions and determined that the estimation process is reasonable, consistent with prior periods, and appropriate.
Discount on non-interest-bearing mortgage loans	The discount on non-interest bearing mortgage loans is an estimate.	Management uses discount rates provided by Habitat International, which are consistent with the cost of capital associated with disadvantaged loans.	We have reviewed the discount calculation and determined it to be reasonable, consistent with prior years, and appropriate.
Allowance for doubtful accounts (pledge receivables and negative escrow balances)	Habitat considers recording an allowance for doubtful accounts to protect against future bad debts.	Management estimates the allowance based on historical write-offs and knowledge of accounts outstanding.	We have determined management's approach to be consistent with prior years and reasonable.

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Significant Accounting Policies and Practices

The primary responsibility for establishing Habitat's significant accounting policies and practices applied in its financial statements rests with management. Following is a description of Habitat's significant accounting policies and practices identified by management.

Description of Accounting Policy	***Why Such Policy is Significant***	***Comments***
Net Assets		
Habitat reports its financial information according to two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) according to donor restrictions.	Accounting for donor restrictions is complex and requires monitoring by management and the Board.	Most of Habitat's net assets are without donor restriction and available for operations at June 30, 2022.
Support and Revenues		
Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.	By their nature, revenue recognition policies have a significant impact on any organization's financial statements. This effect relative to the financial statements as a whole is considered significant.	Habitat believes it has adequate accounting policies and practices to accurately record revenue and support.
The Organization accounts for program service revenue in accordance with *Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)*.	Under this guidance, program service revenues are measured based on the amount of consideration specified in a contract with a customer and are recognized when performance obligations are satisfied, which generally occurs with the transfer of control of the goods or services to the customer.	We believe management's disclosures in the combined financial statements regarding such policies and practices are adequate.
The Organization accounts for grant funds from various government agencies in accordance with *Accounting Standards Update No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*	Under this guidance, reimbursement type grants are classified as conditional contributions rather than program service revenue.	

We believe management's disclosures in the financial statements regarding such policies and practices are adequate.

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Communication of Internal Control Matters

Internal controls are an integral part of any organization's financial and business policies and procedures. Internal controls consist of the measures taken by Habitat for the purpose of (1) protecting its resources against waste, fraud, and inefficiency (2) ensuring accuracy and reliability in accounting and operating data and (3) securing compliance with the policies of Habitat.

In planning and performing our audit of the financial statements as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Habitat's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Understanding Internal Controls:

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 in a timely manner. These deficiencies can be considered a "deficiency", or a "significant deficiency" based on the magnitude of the problem identified.

A **material weakness** is a deficiency or combination of deficiencies in internal control, such that it is reasonably possible it will lead to a material misstatement of the entity's financial statements which will not be prevented or detected and corrected in a timely manner.

Internal Control Comments:

We are pleased to report that we did not identify any deficiencies in internal control that we consider to be material weaknesses as described above.

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Recent Accounting Standards Updates

New Lease Accounting Standard

In February 2016, the FASB issued its much discussed and controversial guidance on accounting for leases, ASU 2016-02, *Leases (Topic 842)*. The major thrust of this guidance will be the recognition of a lease asset and liability on the balance sheet, as well as new disclosures about the entity's leasing arrangements. The effective date for most not-for-profit entities is fiscal years beginning after December 15, 2021 (for your fiscal year ending 2023). Note the effective date for this new standard has been delayed an additional year from the original implementation date.

Recommendations

<u>State Tax Registrations for Solicitations</u>

Because fundraising activities are regulated by state law, and many states require nonprofits to register with the state *before* solicitations from residents of that state begin, we recommend you review your solicitations by state to determine if you need to register with any additional states going forward. This is often done in connection with the organization's annual legal review with your legal counsel.

In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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