Audit Results & Communications

Report to the Finance Committee
of the Board of Directors

October 16, 2019
Finance Committee of the Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary

We are pleased to present the results of our audit of the June 30, 2019 consolidated financial statements of Richmond Metropolitan Habitat for Humanity Inc. and Subsidiary (the "Organization").

This report to the Finance Committee summarizes our audit, the scope of our engagement and the reports to be issued. The document also contains the Finance Committee communications required by our professional standards.

The audit is designed to express an opinion on the consolidated financial statements. We considered the Organization’s current and emerging business needs, along with an assessment of risks that could materially affect the consolidated financial statements and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the entire Board of Directors, and the public expect. We received the full support and assistance of the Organization’s personnel.

This report is intended solely for the information and use of the Finance Committee, the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to meet with you to discuss the audit and the matters in this report.

October 16, 2019
Glen Allen, Virginia
# Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary

## Table of Contents

### Audit Results and Communications

- Summary of What We Agreed To Do ................................................................. 1
- Required Communications ................................................................................. 2

### Appendices

- Appendix A – Internal Control Communication .................................................. 8
- Appendix B – Other Audit Observations .............................................................. 9
Audit Results and Communications

SUMMARY OF WHAT WE AGREED TO DO

As discussed with management during our planning process, our audit plan was designed based on our assessment of risk for the Organization and our assessment of external factors that impacted the Organization’s operating environment. Specifically, we designed our audit to express an opinion on the consolidated financial statements. In addition, included in this report at Appendix A is a letter that documents our consideration of the Organization’s internal control over financial reporting which also includes recommendations to improve or enhance the Organization’s internal control environment that we observed during the course of our audit.

We also provide the following services to the Organization:

- Prepare the informational returns for organizations exempt from tax;
- Assist in the preparation of the consolidated financial statements, including proposing adjusting entries;
- Assist management with the computation of mortgage discount amortization for financial reporting purposes.
Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary

Required Communications

Professional standards require the auditor to communicate certain matters to those charged with governance that may assist the Finance Committee in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary.

AUDITOR'S RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

The consolidated financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States to provide reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing, and extent of testing performed.

› We issued an unmodified opinion on the Organization's consolidated financial statements for the year ended June 30, 2019.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

We report all critical accounting policies and practices used by the Organization in preparing the consolidated financial statements and our assessment of the disclosure of such policies.

› The consolidated financial statements of the Organization have disclosed its accounting policies and practices. These critical accounting policies and practices include:

- Revenue recognition and mortgage receivable
- Inventory costing
- Net assets
- Allocation of functional expenses
- Consolidation

The disclosures made by the Organization relative to its critical accounting policies and practices are, in our opinion, appropriate.
OUR JUDGMENTS ABOUT THE QUALITY OF THE ORGANIZATION’S ACCOUNTING PRINCIPLES

We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in the Organization’s financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the consolidated financial statements and related disclosures.

Based on our audit, we believe the accounting principles used by the Organization are consistent with the previous year and the judgments made by management were reasonable. Disclosures are considered appropriate and consistent with the industry.

SENSITIVE ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the consolidated financial statements and the possibility that future events may differ significantly from management’s expectations.

We determine that the Finance Committee is informed about management’s process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.

Significant management estimates for 2019 consist of:

- Fair value of in-kind donations
- Allocation of functional expenses
- Discount on mortgages receivable
- Allowance for doubtful accounts
- Impairment of long-lived assets

We believe the accounting estimates made by management are reasonable and consistent with industry standards.
THE ADOPTION OF OR A CHANGE IN AN ACCOUNTING PRINCIPLE

We determine that the Finance Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the consolidated financial statements.

- During 2019, in accordance with Generally Accepted Accounting Principles, management followed the guidance set forth in ASU 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (Topic 958). The ASU amends the reporting model for not-for-profit organizations and enhances their required disclosures. The amendment requires the Organization to expand note disclosures. The Organization has adopted this ASU as of and for the year ended June 30, 2019.

ALL MATERIAL ALTERNATIVE ACCOUNTING TREATMENTS DISCUSSED WITH MANAGEMENT

We report to the Finance Committee all alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including:

(i) Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected.

(ii) The treatment preferred by us.

- During 2019, we did not discuss any material alternative accounting treatments with management.

METHODS OF ACCOUNTING FOR SIGNIFICANT UNUSUAL TRANSACTIONS AND FOR CONTROVERSIAL OR EMERGING AREAS

We determine that the Finance Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

- We are not aware of any significant unusual transactions recorded by the Organization or any significant accounting policies used by the Organization related to controversial or emerging areas for which there is a lack of authoritative guidance.
Required Communications, Continued

SIGNIFICANT AUDIT ADJUSTMENTS

We provide the Finance Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the Organization’s consolidated financial statements.

- Year-end entry to increase unamortized mortgage discount and mortgage discount amortization - $530,848
- Year-end entry to increase salaries and wages and payroll payable - $53,849
- Year-end entry to increase salaries and wages and accrued vacation - $33,560
- Adjusting entry to decrease construction in process inventory and cost of construction for properties sold - $23,769

UNADJUSTED AUDIT DIFFERENCES CONSIDERED BY MANAGEMENT TO BE IMMATERIAL

We inform the audit committee about unadjusted audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole.

- There were no unadjusted audit differences.

FRAUD AND ILLEGAL ACTS

We report to the Finance Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the consolidated financial statements.

- We are not aware of any fraud or illegal acts.

DEFICIENCIES IN INTERNAL CONTROL

We are required to communicate all material weaknesses and significant deficiencies in internal control over financial reporting, which may have been identified during the course of our audit.

- See Appendix “A” for the communication regarding internal control.

DISAGREEMENTS WITH MANAGEMENT

- None
Required Communications, Continued

SERIOUS DIFFICULTIES ENCOUNTERED IN DEALING WITH MANAGEMENT WHEN PERFORMING THE AUDIT

› None

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

› None

MANAGEMENT REPRESENTATIONS IN CONNECTION WITH THE AUDIT

› We understand that the Organization has provided you with a copy of the management representation letter.

CONSULTATION WITH OTHER ACCOUNTANTS

› None of which we are aware.

INDEPENDENCE

We communicate, at least annually, the following to the Finance Committee or Board of Directors of the Organization.
1. Disclose, in writing, all relationships between Keiter and our related entities and the Organization and its related entities that, in our professional judgment, may reasonably be thought to bear on independence.
2. Confirm in writing that, in our professional judgment, we are independent of the Organization.

› We are independent of the Organization.
NEW ACCOUNTING AND REGULATORY DEVELOPMENTS

Leases

In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the statement of financial position with a right of use asset and a lease liability. The standards will require entities to classify leases as either a finance or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of activities. On the statement of cash flows, the principal portion of the financing lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of activities. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented.

Revenue Recognition

During 2014, the FASB issued a new standard for revenue recognition, ASU 2014-09. The standard defines a process for evaluating revenue recognition including 1) identify the contract, 2) identify separate performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, and 5) recognize revenue when (or as) the organization satisfies a performance obligation. One of the key concepts in the standard is that revenue should be recognized when a customer has control over a good or service. The standard also requires an entity to enhance revenue recognition disclosures in the accounting policy footnote including both quantitative and qualitative information, significant judgments involved in the process, and the amount and timing of remaining performance obligations. The standard is effective for private companies for annual reporting periods beginning after December 15, 2018. Although the guidance is not applicable to grants and contribution amounts, management should consider the implications for programmatic and special event revenue.
APPENDIX A – INTERNAL CONTROL COMMUNICATION

Finance Committee of the Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary

In planning and performing our audit of the consolidated financial statements of Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary (the “Organization”) as of June 30, 2019 and for the year then ended, in accordance with auditing standards generally accepted in the United States, we considered the Organization’s internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated 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 combination of deficiencies in internal controls, 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 and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee, the Board of Directors, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

October 9, 2019
Glen Allen, Virginia
Lack of Segregation of Duties

As mentioned in the prior year, the small size of the Organization's staff is a key factor in not achieving the proper segregation of duties. Because of this size limitation, there is a risk that certain internal controls in place such as reconciliation of general ledger accounts and approval of journal entries may not be effective in detecting a financial statement error. As a result, other monitoring controls, such as the governance by the Finance Committee, should continue to be utilized as an element of the overall control environment. Note that the Vice President of Finance has worked on putting additional controls in place to address the above items, which we feel mitigates much of the risk.