

Beaches Habitat for Humanity, Inc.

(a non-profit organization)

Atlantic Beach, Florida

Financial Statements

June 30, 2016 and 2015

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Beaches Habitat for Humanity, Inc.
Atlantic Beach, Florida

We have audited the accompanying financial statements of Beaches Habitat for Humanity, Inc., which comprise the statements of financial position as of June 30, 2016, and 2015, and the related statements of activities, statements of functional expenses and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the 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 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 or 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 financial statement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beaches Habitat for Humanity, Inc. as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ralston + Company, PA

March 4, 2017

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Financial Position
June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 379,316	\$ 358,311
Escrow deposits	317,829	301,696
Accounts receivable	78,806	276,163
Prepaid insurance	8,241	13,043
Mortgage notes receivable - net	4,932,096	3,790,737
Construction inventory	3,136,979	3,332,092
Property and equipment - net of accumulated depreciation of \$206,179 and \$176,503	<u>601,564</u>	<u>624,516</u>
 Total assets	 <u><u>\$ 9,454,831</u></u>	 <u><u>\$ 8,696,558</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 299,673	\$ 363,709
Accrued expenses	16,073	4,521
Escrow payable	314,719	301,486
Line of credit	1,750,000	850,710
Notes payable	659,976	935,886
Deposits and payments on houses awaiting closing	<u>2,325</u>	<u>4,050</u>
 Total liabilities	 <u><u>3,042,766</u></u>	 <u><u>2,460,362</u></u>
 Net assets:		
Unrestricted	<u>6,412,065</u>	<u>6,236,196</u>
 Total net assets	 <u><u>6,412,065</u></u>	 <u><u>6,236,196</u></u>
 Total liabilities and net assets	 <u><u>\$ 9,454,831</u></u>	 <u><u>\$ 8,696,558</u></u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Activities
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets		
Support and revenue		
Program service	\$ 4,119,231	\$ 1,559,436
Contributions and sponsorships	1,953,889	1,146,661
Grants	58,436	1,029,916
Interest income	741	930
Other income	7,662	9,919
	<u>6,139,959</u>	<u>3,746,861</u>
Total support and revenue		
Expenses		
Program services	5,257,560	2,804,265
Management and general	561,985	443,285
Fundraising	144,545	139,375
	<u>5,964,090</u>	<u>3,386,925</u>
Total expenses		
Increase in net assets	175,869	359,936
Net assets - beginning of year	<u>6,236,196</u>	<u>5,876,260</u>
Net assets - end of year	<u>\$ 6,412,065</u>	<u>\$ 6,236,196</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Functional Expenses
For the year ended June 30, 2016

	Program Services	Supporting Services Management and General	Fund Raising	2016 Total
Salaries	\$ 403,879	\$ 336,677	\$ 61,056	\$ 801,612
Employee benefits	67,315	55,504	9,334	132,153
Payroll taxes	31,514	25,874	4,216	61,604
Total salaries and related expenses	502,708	418,055	74,606	995,369
Construction and supplies	3,962,098	-	-	3,962,098
Mortgage discounts, net of amortization	430,191	-	-	430,191
Professional fees	68,623	68,623	-	137,246
Office and premises	68,326	22,775	-	91,101
Educational program	75,329	-	-	75,329
Special events	-	-	69,939	69,939
Interest	45,013	22,171	-	67,184
Tithe	52,000	-	-	52,000
Depreciation	14,838	14,838	-	29,676
Insurance	15,000	7,388	-	22,388
Printing and postage	7,614	3,750	-	11,364
Travel	6,917	-	-	6,917
Other	8,903	4,385	-	13,288
Total expenses	<u>\$ 5,257,560</u>	<u>\$ 561,985</u>	<u>\$ 144,545</u>	<u>\$ 5,964,090</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Functional Expenses
For the year ended June 30, 2015

	Program Services	Supporting Services Management and General	Fund Raising	2015 Total
Salaries	\$ 330,626	\$ 275,612	\$ 49,982	\$ 656,220
Employee benefits	53,747	44,317	7,453	105,517
Payroll taxes	27,336	22,444	3,657	53,437
Total salaries and related expenses	411,709	342,373	61,092	815,174
Construction and supplies	1,687,695	-	-	1,687,695
Mortgage discounts, net of amortization	443,655	-	-	443,655
Professional fees	47,459	47,459	-	94,918
Office and premises	64,579	21,526	-	86,105
Special events	-	-	78,283	78,283
Educational program	63,457	-	-	63,457
Depreciation	13,478	13,478	-	26,956
Interest	13,725	6,760	-	20,485
Tithe	20,000	-	-	20,000
Insurance	10,278	5,062	-	15,340
Travel	14,776	-	-	14,776
Printing and postage	6,088	2,999	-	9,087
Other	7,366	3,628	-	10,994
Total expenses	<u>\$ 2,804,265</u>	<u>\$ 443,285</u>	<u>\$ 139,375</u>	<u>\$ 3,386,925</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statement of Cash Flows
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 175,869	\$ 359,936
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	29,676	26,956
Discounts on mortgages	430,191	389,812
Loss on asset disposal	-	(1,185)
Changes in assets and liabilities		
Escrow deposits	(16,133)	(21,311)
Accounts receivable	197,357	(183,438)
Construction inventory	195,113	(1,103,713)
Other assets	4,802	6,462
Accounts payable	(64,036)	207,827
Accrued expenses	11,552	(4,962)
Escrow payable	13,233	25,450
Deposits and payments on houses awaiting closing	(1,725)	425
Net cash provided (used) by operating activities	<u>975,899</u>	<u>(297,741)</u>
Cash flows from investing activities		
Purchases of equipment	(6,723)	(32,512)
Changes in mortgage notes receivable - net of discounts	<u>(1,571,550)</u>	<u>(852,366)</u>
Net cash used by investing activities	<u>(1,578,273)</u>	<u>(884,878)</u>
Cash flows from financing activities		
Proceeds on long-term debt	233,913	533,913
Change in line of credit	899,290	850,710
Repayment of long-term debt	<u>(509,824)</u>	<u>(387,468)</u>
Net cash provided by financing activities	<u>623,379</u>	<u>997,155</u>
Net increase (decrease) in cash	21,005	(185,464)
Cash at beginning of year	<u>358,311</u>	<u>543,775</u>
Cash at end of year	<u>\$ 379,316</u>	<u>\$ 358,311</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 67,184</u>	<u>\$ 20,485</u>
Cash paid for income taxes	<u>N/A</u>	<u>N/A</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2016 and 2015

1. Organization and Purpose

Beaches Habitat for Humanity, Inc. (the Organization) was established November 28, 1990 as an independent affiliate of Habitat for Humanity International. The Organization seeks to put God's love into action, bringing people together to build homes, communities and hope. Primary programs include building new homes, renovating and repairing existing homes for families in need in eastern Duval County Florida, particularly in the beaches communities of Atlantic Beach, Neptune Beach, and Jacksonville Beach. Homes are sold to working low-income families who qualified for the homeownership programs and meet required volunteer hours. Homeowners purchase their homes with an interest free mortgage held by the Organization.

Recognizing the importance of education in breaking the cycle of poverty, the Organization offers a number of educational support and enrichment programs to assist students and families in achieving their highest academic potential. In addition, the Organization provides access to college scholarship programs.

2. Summary of Significant Accounting Principles

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the transfer to the homeowner. Construction costs are capitalized and carried as an asset until the property is completed and sold.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Organization has no temporarily or permanently restricted net assets.

Mortgage Notes Receivable

The Organization has a policy of selling affordable housing with interest free mortgages. Therefore, mortgages receivable do not have a stated interest rate. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. The Organization does not maintain an allowance for uncollectible mortgages receivable because the home buyers are allowed a significant credit for their volunteer labor and the Organization has the ability to foreclose on properties and resell them to collect any past due amounts. All mortgages and contracts for deed are due based on the notes terms. Management believes all mortgages and contracts for deed receivable are realizable through either collection or foreclosure proceeds, if not collected.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2016 and 2015

Inventories

Inventories consist of construction supplies and homes. The construction supplies are valued at the lower of cost or market. Cost is determined on the first-in, first out method. Donated items are recorded at estimated fair value at the date of donation. Home inventory consists of houses and lots constructed or purchased by the Organization for the rehabilitation and resale. The houses and lots are valued at the lower of specific acquisition and carrying costs or estimated net value. Any additional costs to rehabilitate the homes are added to the carrying cost of the home.

Repurchased Homes

Repurchased homes acquired through or in lieu of loan foreclosure are initially recorded at the lesser of outstanding loan balance less the outstanding discount on the loan or the fair value. Any write-down on the asset to fair value at the date of acquisition is charged to loss on the statement of activities. Cost of significant property improvements are added to the cost of the home, whereas costs relating to holding the property are expensed.

Property and Equipment

Acquisition of property and equipment are capitalized at cost, or if donated, at fair value at the date of donation. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the Statement of Activities. Depreciation is computed using straight-line and accelerated methods over the useful lives of the assets.

Donated Materials, Long-lived Assets, Facilities & Services

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use facilities are recorded as contributions in the period received at fair value. Contribution of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills.

Notes Payable

Notes payable are recorded at their outstanding principal amounts.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Other income from operations not directly related to the Organization's non-profit purposes is taxable at the regular corporate tax rates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2016 and 2015

Valuation

To best reflect economic realities and comply with certain grant requirements, the selling price of new homes is at approximate appraisal value. The mortgage receivable due from the homeowner is adjusted to reflect the value of significant volunteer credits in the form of internal down payment assistance, thus meeting the requirements of the national organization.

Functional Classification of Expenses

The Organization allocated its expenses on a functional basis among its various programs including fundraising activities and support services. Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated based on various relationships.

Revenue and Cost Recognition

The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and general and administrative costs are charged to expense as incurred.

Date of Management's Review

Subsequent events were evaluated through March 4, 2017, the date the financial statements were available for release.

3. Escrow Deposits

The Organization holds escrow deposits on behalf of persons with outstanding mortgage receivables. The escrows are for purposes of repairs and maintenance. The escrow deposits are held in a commercial bank account. The outstanding escrow balances were \$317,829 and \$301,696 at June 30, 2016 and 2015, respectively.

4. Mortgage Notes Receivable

The Organization provides 100% financing on homes purchased over a 20 to 30 year period at no interest. Generally Accepted Accounting Principles require that contractual rights to receive money in the future be recorded at the present value of the consideration given in exchange.

The value of the house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments using an imputed interest rate. The difference between the face amount of the note and its present value is accounted for as a discount, recorded on the balance sheet reducing mortgage notes receivable, and amortized over the life of the note by the interest method. Present value is calculated using rates determined for the year the mortgage was executed. Rates used for the year ending, June 30, 2016 and 2015, were 7.48% and 7.51% respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2016 and 2015

The Organization has an agreement with a commercial bank, whereby the bank acts as loan processor after closing takes place.

	<u>2016</u>	<u>2015</u>
Mortgage notes receivable	\$ 10,732,534	\$ 9,895,037
Less: Unamortized discount	5,800,438	6,104,300
	<u>\$ 4,932,096</u>	<u>\$ 3,790,737</u>

All notes are collateralized by a first mortgage lien on the real property sold. In the event of a default by the mortgagor, the property may be repossessed to satisfy any outstanding obligations. In addition, all mortgages are non-assumable without prior written approval of the Organization. Since all houses are collateralized by a first mortgage lien and the high demand for affordable housing in the area, the Organization has made no allowance for uncollectible mortgages.

\$4,181,547 of select mortgage receivables serve as collateral for a commercial bank line of credit.

As of June 30, 2016 and 2015, the Organization had 55 and 42 delinquent loans, with approximate delinquent balances of \$76,000 and \$50,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2016 and 2015 is approximately \$2,674,000 and \$2,445,000, respectively.

During the year ending June 30, 2016, loan sales took place of:

Principal	\$ 1,421,964
Mortgage discount	<u>(734,053)</u>
Net	687,911
Sales price, net	<u>941,653</u>
Gain	<u>\$ 253,742</u>

The Organization is obligated to swap out any mortgages sold, if any become significantly in arrears.

5. Construction Inventory

All construction costs, including materials and subcontract labor paid by the Organization as well as the value of those items donated to the Organization, are considered work in progress until a mortgage is signed on the house.

Beaches Habitat for Humanity, Inc.
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Notes to the Financial Statements
June 30, 2016 and 2015

At June 30, 2016 and 2015, there were no completed but unsold homes as well as 32 and 13 homes in process, respectively. There was 0 and 1 repurchased homes at June 30, 2016 and 2015, respectively. The detail of the construction inventory is as follows:

	<u>2016</u>	<u>2015</u>
Land & land infrastructure	\$ 2,255,185	\$ 2,687,227
Construction in process	881,794	644,865
	<u>\$ 3,136,979</u>	<u>\$ 3,332,092</u>

6. Property and Equipment

Property and equipment consisted of:

	<u>2016</u>	<u>2015</u>
Land	\$ 106,848	\$ 106,848
Building & improvements	509,134	504,031
Equipment	191,760	190,140
	<u>807,742</u>	<u>801,019</u>
Less accumulated depreciation	(206,179)	(176,503)
	<u>\$ 601,564</u>	<u>\$ 624,516</u>

7. Deposits and Payments on Houses Awaiting Closing

As stated in Note 1, families must meet certain requirements before they can sign a mortgage on a house. If the house is completed before these requirements are met, then the family is allowed to rent the house while working to meet the requirements. Families receive a rent credit at the time the house is closed, at which time it is applied to reduce the mortgage. In addition, down payments of \$500 are collected on all houses and are applied to reduce the mortgage at closing.

At June 30, 2016 and 2015, the Organization had \$2,325 and \$4,050 down payment credits. There were no rent applied credits.

8. Line of Credit

Commercial bank line of credit in the amount of \$2,000,000; with interest at the LIBOR rate plus two and one-half percent, subject to a floor of 3% and a ceiling of 5%, currently 3.00%, secured by select mortgage receivables. The line of credit matures August 2016. The outstanding balance was \$1,750,000 and \$850,710 at June 30, 2016 and 2015, respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2016 and 2015

9. Notes Payable

The Organization had the following notes payable at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Commercial bank note, interest at the bank's prime rate plus one-half percent, currently 3.75%, secured by land and assignment of leases and rents of property built on the land; payable in 36 monthly payments of \$5,513, using a ten year amortization, and a balloon payment due September 2016.	\$ 218,548	\$ 467,727
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,041, beginning July 2014 and maturing July 2018.	6,278	18,770
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$781, beginning July 2013 and maturing July 2017.	14,070	23,442
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$208 beginning July 2012 and maturing July 2016.	-	2,512
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$950 a month beginning January 2015 and maturing January 2019.	28,501	39,901
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$833 beginning July 2012 and maturing July 2016.	5,014	15,010
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$73 beginning July 2015 and maturing July 2019.	3,069	3,507
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,169 beginning July 2016 and maturing July 2020.	56,124	56,124
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$234 beginning July 2015 and maturing July 2019.	11,250	11,250

Beaches Habitat for Humanity, Inc.
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Notes to the Financial Statements
June 30, 2016 and 2015

Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,328 beginning July 2016 and maturing July 2020.	63,750	63,750
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$3,015 beginning January 2017 and maturing January 2021.	144,769	144,769
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$390 beginning January 2017 and maturing January 2021.	18,750	18,750
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$364 beginning July 2015 and maturing July 2019.	17,500	17,500
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,101 beginning January 2017 and maturing January 2021.	52,874	52,874
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$478 beginning January 2018 and maturing December 2021.	19,479	-
	<u>659,976</u>	<u>935,886</u>
Less current portion	(156,185)	(146,164)
Long-term portion	<u>\$ 503,791</u>	<u>\$ 789,722</u>

Principal payments on notes payable for each of the next five years are as follows:

2017	\$ 156,185
2018	163,517
2019	155,988
2020	149,943
2021	34,343
Thereafter	-
	<u>\$ 659,976</u>

10. Donations

Building materials, subcontract labor and land which are donated to the Organization are valued at their estimated fair value and recorded as contract costs. In kind contributions totaled \$159,350 and \$95,315 for the years ended June 30, 2016 and 2015, respectively.

Beaches Habitat for Humanity, Inc.
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Notes to the Financial Statements
June 30, 2016 and 2015

11. Concentrations of Credit Risk

Since the Organization's home sales are concentrated within one geographic location (Beaches Community of the Jacksonville, Florida area) to individuals who would otherwise not qualify for home mortgage financing, there is a significant concentration of credit risk associated with the Organization's mortgage notes receivable. In an effort to minimize this risk, it is the Organization's policy to require credit reports, employment verifications and police checks on all potential homeowners. Additional protection is provided by the recorded first mortgage lien on the real property during the period the mortgage is outstanding and the non-assumable nature of the mortgage without prior written approval of the Organization.

The Organization had commercial bank accounts at two commercial banks of \$339,021 and \$312,542 at June 30, 2016, which are \$151,564 above the insured FDIC limit of \$250,000.

12. Affiliation

The Organization is an affiliate of Habitat for Humanity International, Inc.

13. Separate Cash Accounts

Certain grants require separate cash accounts and/or accounting. The Organization maintains the appropriate accounts and/or accounting.

14. Related Party Transaction

During the year ending June 30, 2016 and 2015, \$43,862 and \$129,259 was paid to a Board Member for architectural services. In 2015, association fees of \$950 were paid to a Board Member.

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**INDEPENDENT AUDITORS' 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
Beaches Habitat for Humanity, Inc.
Atlantic Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Beaches Habitat for Humanity, Inc. (a non-profit organization), which comprise the financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beaches Habitat for Humanity, 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 affect 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.

Robston & Company, PA

March 4, 2017