

Beaches Habitat for Humanity, Inc.

(a non-profit organization)

Atlantic Beach, Florida

Financial Statements

June 30, 2018 and 2017

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
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INDEPENDENT AUDITOR'S 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, 2018, and 2017, 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.

Auditor's 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 auditor's 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, 2018 and 2017, 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.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018, on our consideration of Beaches Habitat for Humanity, 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 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 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 Beaches Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

Ralston & Company, PA

November 14, 2018

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash	\$ 517,539	\$ 340,545
Escrow deposits	357,059	338,267
Accounts receivable	263,601	69,429
Prepaid insurance	35,374	45,734
Mortgage notes receivable - net	4,312,105	3,974,519
Construction inventory	2,940,536	2,389,288
Property and equipment - net of accumulated depreciation of \$241,510 and \$210,626	<u>559,116</u>	<u>590,000</u>
 Total assets	 <u><u>\$ 8,985,330</u></u>	 <u><u>\$ 7,747,782</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 156,839	\$ 138,639
Accrued expenses	16,716	15,040
Escrow payable	355,884	367,308
Line of credit	847,321	417,321
Notes payable	700,634	496,106
Deposits and payments on houses awaiting closing	<u>3,850</u>	<u>34,816</u>
 Total liabilities	 <u>2,081,244</u>	 <u>1,469,230</u>
Net assets:		
Unrestricted	<u>6,904,086</u>	<u>6,278,552</u>
 Total net assets	 <u>6,904,086</u>	 <u>6,278,552</u>
 Total liabilities and net assets	 <u><u>\$ 8,985,330</u></u>	 <u><u>\$ 7,747,782</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets		
Support and revenue		
Program service	\$ 1,951,647	\$ 3,602,792
Contributions and sponsorships	2,045,360	1,697,803
Grants	381,021	-
Interest income	1,079	769
Other income	12,943	19,476
	<u>4,392,050</u>	<u>5,320,840</u>
Total support and revenue		
Expenses		
Program services	3,144,242	4,879,761
Management and general	482,576	455,344
Fundraising	139,698	119,248
	<u>3,766,516</u>	<u>5,454,353</u>
Total expenses		
Increase (decrease) in net assets	625,534	(133,513)
Net assets - beginning of year	<u>6,278,552</u>	<u>6,412,065</u>
Net assets - end of year	<u>\$ 6,904,086</u>	<u>\$ 6,278,552</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, 2018

	Program Services	Supporting Services Management and General	Fund Raising	2018 Total
Salaries	\$ 371,872	\$ 309,996	\$ 56,218	\$ 738,086
Employee benefits	63,412	52,287	8,793	124,492
Payroll taxes	26,536	21,787	3,550	51,873
Total salaries and related expenses	461,820	384,070	68,561	914,451
Construction and supplies	1,869,778	-	-	1,869,778
Mortgage discounts, net of amortization	462,945	-	-	462,945
Professional fees	107,110	35,703	-	142,813
Office and premises	61,782	20,594	-	82,376
Educational program	81,151	-	-	81,151
Special events	-	-	71,137	71,137
Interest	21,481	10,580	-	32,061
Depreciation	15,442	15,442	-	30,884
Tithe	20,000	-	-	20,000
Insurance	7,869	3,876	-	11,745
Travel	9,869	-	-	9,869
Printing and postage	6,202	3,055	-	9,257
Other	18,793	9,256	-	28,049
Total expenses	<u>\$ 3,144,242</u>	<u>\$ 482,576</u>	<u>\$ 139,698</u>	<u>\$ 3,766,516</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, 2017

	Program Services	Supporting Services Management and General	Fund Raising	2017 Total
Salaries	\$ 348,647	\$ 290,636	\$ 52,707	\$ 691,990
Employee benefits	57,070	47,058	7,914	112,042
Payroll taxes	24,971	20,502	3,341	48,814
Total salaries and related expenses	430,688	358,196	63,962	852,846
Construction and supplies	3,140,249	-	-	3,140,249
Mortgage discounts, net of amortization	947,198	-	-	947,198
Professional fees	93,849	31,283	-	125,132
Office and premises	63,647	21,216	-	84,863
Educational program	84,706	-	-	84,706
Special events	-	-	55,286	55,286
Interest	32,738	16,124	-	48,862
Depreciation	15,572	15,572	-	31,144
Tithe	25,000	-	-	25,000
Travel	19,816	-	-	19,816
Insurance	12,715	6,263	-	18,978
Printing and postage	6,743	3,321	-	10,064
Other	6,840	3,369	-	10,209
Total expenses	<u>\$ 4,879,761</u>	<u>\$ 455,344</u>	<u>\$ 119,248</u>	<u>\$ 5,454,353</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	\$ 625,534	\$ (133,513)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	30,884	31,144
Discounts on mortgages, net	462,945	947,198
Changes in assets and liabilities		
Escrow deposits	(18,793)	(20,438)
Accounts receivable	(194,173)	9,377
Prepaid insurance	10,360	(37,493)
Construction inventory	(551,248)	747,691
Accounts payable	18,202	(161,034)
Accrued expenses	1,676	(1,033)
Escrow payable	(11,424)	52,589
Deposits and payments on houses awaiting closing	(30,966)	32,491
Net cash provided by operating activities	<u>342,997</u>	<u>1,466,979</u>
Cash flows from investing activities		
Purchases of equipment	-	(19,579)
Changes in mortgage notes receivable - net of discounts	(800,532)	10,378
Net cash used by investing activities	<u>(800,532)</u>	<u>(9,201)</u>
Cash flows from financing activities		
Proceeds on long-term debt	425,000	-
Change in line of credit	430,000	(1,332,679)
Repayment of long-term debt	(220,472)	(163,870)
Net cash provided (used) by financing activities	<u>634,528</u>	<u>(1,496,549)</u>
Net increase (decrease) in cash	176,994	(38,771)
Cash at beginning of year	<u>340,545</u>	<u>379,316</u>
Cash at end of year	<u>\$ 517,539</u>	<u>\$ 340,545</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 32,061</u>	<u>\$ 48,862</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, 2018 and 2017

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, 2018 and 2017

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. The Organization is no longer subject to U.S. Federal income tax examinations by the tax authorities for years before June 30, 2015.

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.
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Notes to the Financial Statements
June 30, 2018 and 2017

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 Managements' Review

Subsequent events were evaluated through November 14, 2018, the date the financial statements were available for release.

Accounting Pronouncements Issued But Not Yet Adopted

Leases

In February 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)*. This guidance amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. It also makes targeted changes to lessor accounting, including a change to the treatment of initial direct leasing costs, which no longer considers fixed internal leasing salaries as capitalizable costs. The standard is effective beginning January 2019. The Organization is currently evaluating the alternative methods of adoption and the impact it will have on its financial statements and related disclosures.

Financial Statement Presentation of Not-for-Profit Entities

In August of 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. These amendments will have an impact on the Organization's financial statement presentation. These amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of this ASU on its financial statements and related disclosures.

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 \$357,059 and \$338,267 at June 30, 2018 and 2017, respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, were 7.57% and 7.47% respectively.

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

	<u>2018</u>	<u>2017</u>
Mortgage notes receivable	\$ 9,835,202	\$ 9,105,290
Less: Unamortized discount	<u>(5,523,097)</u>	<u>(5,130,771)</u>
	<u>\$ 4,312,105</u>	<u>\$ 3,974,519</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.

\$1,691,890 of select mortgage receivables serve as collateral for a commercial bank line of credit. \$2,882,930 of select mortgage receivables serve as collateral for a note payable to affiliate.

As of June 30, 2018 and 2017, the Organization had 49 and 45 delinquent loans, with approximate delinquent balances of \$93,000 and \$85,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2018 and 2017 is approximately \$3,043,000 and \$2,670,000, respectively.

During the years ending June 30, 2018 and 2017, loan sales took place of:

	<u>2018</u>	<u>2017</u>
Principal	\$ 59,795	\$ 3,261,929
Mortgage discount	<u>(27,817)</u>	<u>(1,616,865)</u>
Net	31,978	1,645,064
Sales price, net	<u>59,795</u>	<u>2,111,895</u>
Gain	<u>\$ 27,817</u>	<u>\$ 466,831</u>

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

Beaches Habitat for Humanity, Inc.
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Notes to the Financial Statements
June 30, 2018 and 2017

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.

At June 30, 2018 and 2017, there were no completed but unsold homes as well as 21 and 26 homes in process, respectively. There were 5 and 6 repurchased homes at June 30, 2018 and 2017, respectively. The detail of the construction inventory is as follows:

	<u>2018</u>	<u>2017</u>
Land & land infrastructure	\$ 1,601,386	\$ 1,588,085
Construction in process	1,339,150	801,203
	<u>\$ 2,940,536</u>	<u>\$ 2,389,288</u>

6. Property and Equipment

Property and equipment consisted of:

	<u>2018</u>	<u>2017</u>
Land	\$ 106,848	\$ 106,848
Building & improvements	524,171	524,171
Equipment	169,607	169,607
	<u>800,626</u>	<u>800,626</u>
Less accumulated depreciation	(241,510)	(210,626)
	<u>\$ 559,116</u>	<u>\$ 590,000</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, 2018 and 2017, the Organization had \$3,850 and \$34,816 down payment credits. There were no rent applied credits.

8. Line of Credit

The Organization has a 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 3.25% and a ceiling of 5.25%, currently 4.48%, secured by select mortgage notes receivable. The line of credit matures October 2017. The outstanding balance was \$847,321 and \$417,321 at June 30, 2018 and 2017, respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2018 and 2017

9. Notes Payable

The Organization had the following notes payable at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$520, beginning July 2019 and maturing July 2023.	\$ 25,000	\$ -
Note payable to affiliate, net of loan costs of \$4,000, payable in quarterly payments of \$22,446 beginning September 2018 and maturing June 2023. Interest compounds quarterly at 4.25%. Certain mortgage receivables serve as collateral.	396,000	-
Commercial bank note, interest at the bank's prime rate plus one-half percent, currently 5.25%, secured by land and assignment of leases and rents of property built on the land; payable in 48 monthly principal payments of \$4,372, with decreasing interest and total payments.	28,358	140,821
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.	5,701	17,101
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$73 beginning July 2015 and maturing July 2019.	1,317	2,193
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,169 beginning July 2016 and maturing July 2020.	28,068	42,096
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$234 beginning July 2015 and maturing July 2019.	5,634	8,442
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,328 beginning July 2016 and maturing July 2020.	31,878	47,814
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$3,015 beginning January 2017 and maturing January 2021.	90,498	126,678
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$390 beginning January 2017 and maturing January 2021.	11,730	16,410

Beaches Habitat for Humanity, Inc.
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June 30, 2018 and 2017

Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$364 beginning July 2017 and maturing July 2021.	13,132	17,500
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,101 beginning January 2018 and maturing January 2022.	46,269	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.	17,049	19,479
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$781, beginning July 2013 and maturing December 2017.	-	4,698
	<u>700,634</u>	<u>496,106</u>
Less current portion	<u>(204,888)</u>	<u>(150,783)</u>
Long-term portion	<u>\$ 495,746</u>	<u>\$ 345,323</u>

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

2019	\$ 204,888
2020	180,011
2021	129,335
2022	96,805
2023	89,595
Thereafter	-
	<u>\$ 700,634</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 \$154,472 and \$162,335 for the years ended June 30, 2018 and 2017, respectively.

11. Concentrations of Credit Risk

Since the Organization's home sales are concentrated within one geographic location (Beaches Community of the Duval County, 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.

Beaches Habitat for Humanity, Inc.
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Notes to the Financial Statements
June 30, 2018 and 2017

The Organization had commercial bank accounts at two commercial banks of \$370,214 and \$573,664 at June 30, 2018, which are \$443,878 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, 2018 and 2017, \$0 and \$11,540 was paid to a Board Member for architectural services.

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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
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, 2018, 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 November 14, 2018.

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.

Ralston + Company, PA

November 14, 2018