

Beaches Habitat for Humanity, Inc.

(a non-profit organization)

Atlantic Beach, Florida

Financial Statements

June 30, 2019 and 2018

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Table of Contents

	<u>Page No.</u>
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to the Financial Statements	8
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 <i>Government Auditing Standards</i>	17

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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, 2019, and 2018, 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, 2019 and 2018, 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 21, 2019, 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

November 21, 2019

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statements of Financial Position
June 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash	\$ 269,876	\$ 517,539
Escrow deposits	386,547	357,059
Accounts receivable	214,612	263,601
Prepaid insurance	2,041	35,374
Mortgage notes receivable - net of unearned discount	4,747,962	4,312,105
Construction inventory	1,865,846	2,940,536
Property and equipment - net of accumulated depreciation of \$251,136 and \$241,510	<u>533,423</u>	<u>559,116</u>
 Total assets	 <u><u>\$ 8,020,307</u></u>	 <u><u>\$ 8,985,330</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 125,552	\$ 146,239
Accrued expenses	61,611	27,316
Escrow payable	394,576	355,884
Line of credit	845,945	847,321
Notes payable	500,621	700,634
Deposits and payments on houses awaiting closing	<u>400</u>	<u>3,850</u>
 Total liabilities	 <u>1,928,705</u>	 <u>2,081,244</u>
Net assets:		
Without donor restrictions	<u>6,091,602</u>	<u>6,904,086</u>
 Total net assets	 <u>6,091,602</u>	 <u>6,904,086</u>
 Total liabilities and net assets	 <u><u>\$ 8,020,307</u></u>	 <u><u>\$ 8,985,330</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions		
Support and revenue		
Program service	\$ 2,385,478	\$ 1,951,647
Contributions and sponsorships	1,233,489	2,045,360
Grants	282,119	381,021
Interest income	3,317	1,079
Other income	2,911	12,943
	<u>3,907,314</u>	<u>4,392,050</u>
Expenses		
Program services	4,043,678	3,144,242
Management and general	539,357	482,576
Fundraising	136,763	139,698
	<u>4,719,798</u>	<u>3,766,516</u>
Increase (decrease) in net assets without donor restrictions	(812,484)	625,534
Net assets - beginning of year	<u>6,904,086</u>	<u>6,278,552</u>
Net assets - end of year	<u>\$ 6,091,602</u>	<u>\$ 6,904,086</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statement of Functional Expenses
For the year ended June 30, 2019

	Program Services	Supporting Services Management and General	Fund Raising	2019 Total
Salaries	\$ 395,592	\$ 329,770	\$ 59,804	\$ 785,166
Employee benefits	85,143	70,204	11,806	167,153
Payroll taxes	30,770	25,263	4,117	60,150
Total salaries and related expenses	511,505	425,237	75,727	1,012,469
Construction and supplies	2,575,831	-	-	2,575,831
Mortgage discounts, net of amortization	600,659	-	-	600,659
Professional fees	114,229	38,076	-	152,305
Office and premises	67,846	22,616	-	90,462
Educational program	65,126	-	-	65,126
Special events	-	-	61,036	61,036
Interest	38,709	19,065	-	57,774
Depreciation	13,513	13,513	-	27,026
Insurance	17,965	8,849	-	26,814
Travel	12,930	-	-	12,930
Printing and postage	8,088	3,984	-	12,072
Tithe	1,000	-	-	1,000
Other	16,277	8,017	-	24,294
Total expenses	<u>\$ 4,043,678</u>	<u>\$ 539,357</u>	<u>\$ 136,763</u>	<u>\$ 4,719,798</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Statement 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 Cash Flows
For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	\$ (812,484)	\$ 625,534
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	27,026	30,884
Discounts on mortgages, net	600,659	462,945
Changes in assets and liabilities		
Escrow deposits	(29,488)	(18,793)
Accounts receivable	48,989	(194,173)
Prepaid insurance	33,333	10,360
Construction inventory	1,074,690	(551,248)
Accounts payable	(20,686)	18,202
Accrued expenses	34,295	1,676
Escrow payable	38,692	(11,424)
Deposits and payments on houses awaiting closing	(3,450)	(30,966)
Net cash provided by operating activities	<u>991,576</u>	<u>342,997</u>
Cash flows from investing activities		
Purchases of equipment	(1,333)	-
Changes in mortgage notes receivable - net of discounts	(1,036,517)	(800,532)
Net cash used by investing activities	<u>(1,037,850)</u>	<u>(800,532)</u>
Cash flows from financing activities		
Proceeds on long-term debt	-	425,000
Change in line of credit	(1,376)	430,000
Repayment of long-term debt	(200,013)	(220,472)
Net cash provided (used) by financing activities	<u>(201,389)</u>	<u>634,528</u>
Net increase (decrease) in cash	(247,663)	176,994
Cash at beginning of year	<u>517,539</u>	<u>340,545</u>
Cash at end of year	<u>\$ 269,876</u>	<u>\$ 517,539</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 57,774</u>	<u>\$ 32,061</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, 2019 and 2018

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.

New Accounting Standard

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 guidance simplifies the current net asset classification requirements from three net asset classifications to two. The amendment also improves the information presentation in the financial statements and notes regarding liquidity, financial performance, and cash flows. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2017. Total net assets did not change as a result of adoption of this ASU.

Contributions

Contributions received are recorded as with donor restriction or without donor restriction depending on the existence and/or nature of any donor restrictions. Contributions that are with restriction by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. When a restriction expires, net assets with restriction are reclassified to without restriction and are reported in the Statements of Activities as assets released from restriction.

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.

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

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

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.

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.

Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less the cost to sell. Long-lived assets were measured for impairment and no adjustments were deemed necessary during the years ended June 30, 2019 and 2018.

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. A substantial number of volunteers have donated a significant amount of their time to the Organization and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Notes Payable

Notes payable are recorded at their outstanding principal amounts.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

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, 2016.

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.

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 21, 2019, 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 for fiscal years after December 15, 2020. The Organization is currently evaluating the alternative methods of adoption and the impact it will have on its financial statements and related disclosures.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

3. Liquidity and Availability of funds

The Organization's financial assets available for general expenditure that are without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 269,876	\$ 517,539
Pledges receivable	50,000	50,000
Accounts receivable - other	<u>64,612</u>	<u>63,601</u>
 Total financial assets at year end	 <u>\$ 384,488</u>	 <u>\$ 631,140</u>
 Total financial assets available to meet general expenditures within the next 12 months	 <u>\$ 384,488</u>	 <u>\$ 631,140</u>

4. 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 \$386,547 and \$357,059 at June 30, 2019 and 2018, respectively.

5. 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 Statement of Financial Position 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, 2019 and 2018, were 7.66% and 7.57% respectively.

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

	<u>2019</u>	<u>2018</u>
Mortgage notes receivable	\$ 10,811,934	\$ 9,835,202
Less: Unamortized discount	<u>(6,063,972)</u>	<u>(5,523,097)</u>
	<u>\$ 4,747,962</u>	<u>\$ 4,312,105</u>

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

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.

\$2,788,176 of select mortgage receivables serve as collateral for a commercial bank line of credit. \$2,316,264 of select mortgage receivables serve as collateral for a note payable to affiliate.

As of June 30, 2019 and 2018, the Organization had 49 and 49 delinquent loans, with approximate delinquent balances of \$69,000 and \$93,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2019 and 2018 is approximately \$3,258,000 and \$3,043,000, respectively.

During the year ending June 30, 2018, loan sales took place of:

	<u>2018</u>
Principal	\$ 59,795
Mortgage discount	<u>(27,817)</u>
Net	31,978
Sales price, net	<u>59,795</u>
Gain	<u><u>\$ 27,817</u></u>

During the year ending June 30, 2019, the Company had loan payoffs that resulted in a gain of \$35,986.

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

6. 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, 2019 and 2018, there were no completed but unsold homes as well as 5 and 21 homes in process, respectively. There were 4 and 5 repurchased homes at June 30, 2019 and 2018, respectively. The detail of the construction inventory is as follows:

	<u>2019</u>	<u>2018</u>
Land & land infrastructure	\$ 1,203,134	\$ 1,601,386
Construction in process	<u>662,712</u>	<u>1,339,150</u>
	<u><u>\$ 1,865,846</u></u>	<u><u>\$ 2,940,536</u></u>

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

7. Property and Equipment

Property and equipment consisted of:

	<u>2019</u>	<u>2018</u>
Land	\$ 106,848	\$ 106,848
Building & improvements	524,171	524,171
Equipment	<u>153,539</u>	<u>169,607</u>
	784,558	800,626
Less accumulated depreciation	<u>(251,136)</u>	<u>(241,510)</u>
	<u><u>\$ 533,423</u></u>	<u><u>\$ 559,116</u></u>

8. 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, 2019 and 2018, the Organization had \$400 and \$3,850 down payment credits. There were no rent-applied credits.

9. 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 4.9385%, secured by select mortgage notes receivable. The line of credit matures October 2017. The outstanding balance was \$845,945 and \$847,321 at June 30, 2019 and 2018, respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

10. Notes Payable

The Organization had the following notes payable at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</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	\$ 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.	326,995	396,000
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$73 beginning July 2015 and maturing July 2019.	441	1,317
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,169 beginning July 2016 and maturing July 2020.	14,040	28,068
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$234 beginning July 2015 and maturing July 2019.	2,826	5,634
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,328 beginning July 2016 and maturing July 2020.	15,942	31,878
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$3,015 beginning January 2017 and maturing January 2021.	54,318	90,498
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$390 beginning January 2017 and maturing January 2021.	7,050	11,730
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments beginning July 2017 and maturing July 2021.	8,764	13,132
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,101 beginning January 2016 and maturing January 2022.	33,057	46,269

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$478 beginning January 2018 and maturing December 2021.	12,189	17,049
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
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
	<u>500,622</u>	<u>700,634</u>
Less current portion	<u>(179,975)</u>	<u>(204,888)</u>
Long-term portion	<u>\$ 320,647</u>	<u>\$ 495,746</u>

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

2020	\$ 179,975
2021	129,968
2022	97,084
2023	93,595
2024	-
Thereafter	-
	<u>\$ 500,622</u>

11. 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 \$116,406 and \$154,472 for the years ended June 30, 2019 and 2018, respectively.

12. 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.

The Organization had commercial bank accounts at two commercial banks of \$483,543 at June 30, 2019, which are \$233,543 above the insured FDIC limit of \$250,000.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Financial Statements
June 30, 2019 and 2018

13. Affiliation

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

14. Separate Cash Accounts

Certain grants require separate accounting. The Organization maintains the appropriate accounting.

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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, 2019, 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 21, 2019.

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

November 21, 2019