Beaches Habitat for Humanity, Inc.

(a non-profit organization)
Atlantic Beach, Florida

Consolidated Financial Statements
June 30, 2021 and 2020

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

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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 consolidated financial statements of Beaches Habitat for Humanity, Inc., which comprise the consolidated statements of financial position as of June 30, 2021, and 2020, and the related consolidated statements of activities, consolidated statements of functional expenses and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beaches Habitat for Humanity, Inc. as of June 30, 2021 and 2020, 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 11, 2021, 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 11, 2021

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Financial Position
June 30, 2021 and 2020

ASSETS

	2021	2020
Cash	$ 2,492,171	$ 303,210
Escrow deposits	399,659	427,056
Accounts receivable, net of allowance	262,737	154,429
Prepaid deposits	13,082	25,221
Mortgages receivable held	1,198,017	1,353,854
Mortgage notes receivable - net of unearned discount	2,818,514	3,853,317
Construction inventory	1,732,103	2,221,824
Property and equipment - net of accumulated depreciation of $296,301 and $274,716	667,709	527,124
Total assets	$ 9,583,992	$ 8,866,035

LIABILITIES AND NET ASSETS

	2021	2020
Accounts payable	$ 43,284	$ 43,040
Accrued expenses	33,073	55,737
Escrow payable	413,621	427,645
Notes payable	1,564,919	1,957,057
Other liabilities	1,050	27,545
Total liabilities	2,055,947	2,511,024
Net assets:		
Without donor restrictions	7,528,045	6,355,011
Total net assets	7,528,045	6,355,011
Total liabilities and net assets	$ 9,583,992	$ 8,866,035

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Activities
For the years ended June 30, 2021 and 2020

	2021	2020
Changes in net assets without donor restrictions		
Support and revenue		
Program service	$ 1,864,998	$ 775,709
Gain on mortgage sale, foreclosures, and swaps	1,055,702	559,696
Contributions and sponsorships	1,021,540	761,731
Mortgage discount amortization	292,804	324,146
Grants	214,465	133,427
Loan forgiveness	162,812	-
Interest income	13,610	7,703
Other income	20,456	6,256
Total support and revenue	4,646,387	2,568,668
Expenses		
Program services	2,916,305	1,757,741
Management and general	450,657	445,724
Fundraising	106,391	101,794
Total expenses	3,473,353	2,305,259
Increase in net assets without donor restrictions	1,173,034	263,409
Net assets - beginning of year	6,355,011	6,091,602
Net assets - end of year	$ 7,528,045	$ 6,355,011

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2021

	Program Services	Supporting Services Management and General	Fund Raising	2021 Total
Salaries	$ 377,734	$ 314,903	$ 57,132	$ 749,769
Employee benefits	44,157	36,812	6,679	87,648
Payroll taxes	26,824	22,362	4,057	53,244
	448,715	374,078	67,868	890,661
Construction and supplies	1,462,336	-	-	1,462,336
Mortgage discounts expense	767,344	-	-	767,344
Professional fees	86,225	28,742	-	114,967
Office and premises	53,783	17,928	-	71,710
Special events	-	-	38,523	38,523
Educational program	36,916	-	-	36,916
Bad debts	17,517	8,628	-	26,145
Depreciation	10,793	10,793	-	21,586
Insurance	10,622	5,232	-	15,854
Tithe	10,000	-	-	10,000
Printing and postage	6,250	3,078	-	9,328
Interest expense	2,402	1,183	-	3,585
Travel	1,380	-	-	1,380
Other	2,022	996	-	3,018
	$ 2,916,305	$ 450,657	$ 106,391	$ 3,473,353

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2020

	Program Services	Supporting Services Management and General	Fund Raising	2020 Total
Salaries	$ 372,784	$ 310,776	$ 56,384	$ 739,944
Employee benefits	45,124	37,618	6,825	89,567
Payroll taxes	25,384	21,161	3,839	50,384
	443,292	369,555	67,048	879,895
Construction and supplies	858,324	-	-	858,324
Mortgage discounts expense	228,274	-	-	228,274
Professional fees	79,096	26,365	-	105,461
Office and premises	57,015	19,005	-	76,021
Educational program	38,340	-	-	38,340
Interest expense	23,882	11,763	-	35,645
Special events	-	-	34,746	34,746
Depreciation	11,790	11,790	-	23,580
Insurance	7,330	3,611	-	10,941
Printing and postage	5,625	2,771	-	8,396
Travel	2,017	-	-	2,017
Tithe	1,000	-	-	1,000
Other	1,755	864	-	2,619
	$ 1,757,741	$ 445,724	$ 101,794	$ 2,305,259

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Increase in unrestricted net assets	$ 1,173,034	$ 263,409
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	21,586	23,580
Loan forgiveness	(162,812)	-
Discounts amortization mortgages, net	474,540	(95,872)
Gain on mortgage sale, foreclosures, and swaps	1,055,702	559,696
Changes in assets and liabilities		
Escrow deposits	27,397	(40,509)
Accounts receivable	(108,308)	60,183
Prepaid insurance	12,139	(23,180)
Construction inventory	332,973	(355,978)
Accounts payable	245	(82,256)
Accrued expenses	(22,664)	(5,874)
Escrow payable	(14,024)	33,069
Other liabilities	(26,497)	27,143
Net cash provided by operating activities	2,763,311	363,411
Cash flows from investing activities		
Purchases of equipment	(5,422)	(17,281)
Change in mortgage receivables held	155,837	77,223
Changes in mortgage notes receivable - net of discounts	(495,439)	430,821
Net cash provided (used) by investing activities	(345,024)	490,763
Cash flows from financing activities		
Proceeds on long-term debt	157,551	252,812
Change in line of credit	-	(845,945)
Repayment of long-term debt	(386,877)	(227,707)
Net cash used by financing activities	(229,326)	(820,840)
Net increase in cash	2,188,961	33,334
Cash at beginning of year	303,210	269,876
Cash at end of year	$ 2,492,171	$ 303,210
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,585	$ 35,645
Cash paid for income taxes	$ N/A	$ N/A

The accompanying notes are an integral part of this statement.

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.

BHFH Funding Company I, LLC (LLC) is a 100% owned limited liability company that was a party to a past mortgage sale agreement between the Organization and a commercial bank.

2. Summary of Significant Accounting Principles

Principles of Consolidation
The consolidated financial statements of the Organization include the accounts of its fully owned LLC. Any intercompany transactions and balances have been eliminated in consolidation.

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.

Basis of Presentation
The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. During 2018, the Organization adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit- Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, which improves the current net asset classification and the related information presented in the financial statements and notes about the Organization's liquidity, financial performance, and cash flows.

In 2020, the Organization adopted the provisions of FASB ASU 2016-18, *Statement of Cash Flows* (Topic 230). This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents.

Revenue and Cost Recognition

Revenue from Exchange Transactions: The Organization recognizes revenue in accordance with FASB ASU 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Homes sales – The Organization recognizes revenues from construction of homebuilding contacts at the closing of the sales 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. Payment typically is due over time in installments, based on terms specified in the contracts. All mortgages and contracts for deed are due based on the notes terms. Construction costs include all direct material and labor cost, subcontract cost and those indirect costs related to construction of the home, such as indirect labor, supplies, tools, and repairs. Selling, general and administrative costs are charged to expenses as incurred.

Contributions

Contributions received, including unconditional promises to give, 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.

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, 2021 and 2020.

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.

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.

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.

Accounts Receivable

Accounts receivable are valued at net realizable value through an allowance for doubtful accounts. The allowance for doubtful accounts was $20,295 and $0 at June 30, 2021 and 2020, respectively.

Mortgages Receivable Held

As indicated in Note 16, the fully owned LLC was used as a funding instrument in a 2017 mortgage sale to a commercial bank. For purposes of continued servicing of the mortgages, the LLC was established to hold the receivables. The Organization receives service collections, remits the proceeds to the LLC, who remits to the commercial bank.

The receivables are non-interest bearing and are considered to be fully collectible.

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.

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.

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, 2018.

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 11, 2021, 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, 2021. The Organization is currently evaluating the alternative methods of adoption and the impact it will have on its financial statements and related disclosures.

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:

	2021	2020
Cash	$ 2,492,171	$ 303,209
Pledge receivable	50,000	-
Accounts receivable - other	75,272	54,429
Total financial assets at year end	$ 2,617,443	$ 357,638
Total financial assets available to meet general expenditures within the next 12 months	$ 2,617,443	$ 357,638

4. Escrow Deposits

The Organization holds escrow deposits on behalf of persons with outstanding mortgages receivable. The escrows are for purposes of repairs and maintenance. The escrow deposits are held in a commercial bank account. The outstanding escrow balances were $399,659 and $427,056 at June 30, 2021 and 2020, 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, 2021 and 2020, were 7.23% and 7.38% respectively.

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

	2021	2020
Mortgage notes receivable	$ 6,032,043	$ 8,581,746
Less: Unearned discount	(3,213,529)	(4,728,429)
	$ 2,818,514	$ 3,853,317

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.

$737,721 of select mortgage receivables serve as collateral for a commercial bank line of credit. $1,170,762 of select mortgage receivables held serve as security of an LLC notes payable to a commercial bank.

As of June 30, 2021 and 2020, the Organization had 60 and 68 delinquent loans, with approximate delinquent balances of $151,000 and $112,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2021 and 2020 is approximately $3,819,000 and $4,297,000, respectively.

During the year ending June 30, 2021 and 2020, loan and mortgage sales took place of:

	2021	2020
Principal	$ 3,418,811	$ 2,213,108
Mortgage discount	(1,989,439)	(1,220,367)
Net	1,429,372	992,741
Sales price, net	$ 2,421,895	$ 1,542,784
Gain	$ 992,523	$ 550,043

The Organization is obligated to swap out any mortgages sold, if any become significantly in arrears. During the year ending June 30, 2021 and 2020, gains on foreclosures and swaps of collateral mortgages resulted in recognition of a $63,179 and $9,653 gain, respectively.

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, 2021 and 2020, there were no completed but unsold homes as well as 4 and 12 homes in process, respectively. There were 1 and 3 repurchased homes at June 30, 2021 and 2020, respectively. The detail of the construction inventory is as follows:

	2021	2020
Land & land infrastructure	$ 1,396,931	$ 1,518,944
Construction in process	335,172	702,880
	$ 1,732,103	$ 2,221,824

7. Property and Equipment

Property and equipment consisted of:

	2021	2020
Land	$ 155,198	$ 106,848
Building & improvements	652,064	541,453
Equipment	156,748	153,539
	964,010	801,840
Less accumulated depreciation	(296,301)	(274,716)
	$ 667,709	$ 527,124

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, 2021 and 2020, the Organization had $1,050 and $2,545 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 3.50% and a ceiling of 5.50%, currently 3.50%. As discussed in Note 5, the line of credit is secured by select mortgage notes receivable. The line of credit matured March 2021. The outstanding balance was $0 at June 30, 2021 and 2020, respectively.

10. Notes Payable

The Organization had the following notes payable at June 30, 2021 and 2020:

	2021	2020
Note payable under the SBA Paycheck Protection Plan, issued April 1, 2021, interest at 1.00%, payable in 5 payments over 5 years. Loan principal and accrued interest can be fully forgiven depending on use of funds as determined by the SBA. The Organization expects 100% of the loan to be forgiven.	$ 146,664	$ -
Commercial bank note, in conjunction with the City of Jacksonville (COJ), unsecured, due April 2025, interest at 3.99%. The COVID assistance loan requires maintaining 50% of pre-COVID workforce. Installment payments of $1,934 per month, maturing January 2025, $10,000 per year is forgiven. $10,000 was forgiven in year ending June 30, 2021.	87,010	100,000
LLC secured note payable to a commercial bank, without interest. The note payments are the remittance of periodic collections of a 2017 structured sale of mortgages to the commercial bank. The mortgages are scheduled to pay out in April 2045. The LLC pledged the right, title, and interest to the mortgage loans to secure the note.	1,283,638	1,354,025
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $520, beginning July 2019 and maturing July 2023.	18,240	23,440
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $468 beginning July 2022 and maturing July 2026.	10,887	-
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments beginning July 2017 and maturing July 2021.	1,948	5,488
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $1,101 beginning January 2016 and maturing January 2022.	12,138	23,148
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $478 beginning January 2018, originally maturing December 2021, but extended for COVID-19 until June 2022.	4,394	8,543

Note payable under the SBA Paycheck Protection Plan, interest at 1.00%, interest accrued for the first 6 months, payable in monthly installments of principal and interest in 2 years. Payments may be deferred up to 1 year. Loan principal and accrued interest can be fully forgiven depending on use of funds as determined by the SBA. The loan was forgiven in year ending June 30, 2021.	-	152,812
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. Paid off in year ending June 30, 2021.	-	250,649
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $1,169 beginning July 2016 and maturing July 2020.	-	3,519
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $234 beginning July 2015 and maturing September 2020.	-	720
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $1,328 beginning July 2016 and maturing July 2020.	-	3,990
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $3,015 beginning January 2017 and maturing January 2021.	-	27,183
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of $390 beginning January 2017 and maturing January 2021.	-	3,540
	1,564,919	1,957,057
Less current portion	(149,747)	(298,577)
Long-term portion	$ 1,415,172	$ 1,658,480

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

2022	$ 149,747
2023	149,925
2024	141,040
2025	120,464
2026	106,640
Thereafter	897,103
	$ 1,564,919

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 $88,522 and $130,441 for the years ended June 30, 2021 and 2020, 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.

To mitigate the risk of overstating the ability of the Organization to fully collect the mortgages, the mortgage receivables have been discounted using the prevailing market rate for low-income housing at the inception of the note. Additionally, all mortgage receivables are collateralized by the real estate associated with the mortgage.

The Organization had commercial bank accounts at two commercial banks of $2,643,289 at June 30, 2021, which are $2,143,289 above the insured FDIC limit of $250,000.

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.

15. Uncertainty

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern”. During 2020 and 2021, the Organization has postponed building and cancelled several events as a result of the pandemic. The Organization expects this matter to negatively impact its operating results. However, the extent of the impact of COVID-19 on the Organization’s operational and financial performance cannot be reasonably estimated at this time.

16. Consolidating Entities Activity

The following represent the balances of BHFH Funding Company I, LLC (LLC) which have been consolidated into the financial statements of the Organization.

	2021	2020
Assets		
Due from the Organization	$ 85,621	$ 171
Mortgage receivables held	1,198,017	1,353,854
Total assets	$ 1,283,638	$ 1,354,025
Liabilities		
Note payable to commercial bank	$ 1,283,638	$ 1,354,025

The LLC has no income and expense transactions.

The LLC was established as a funding instrument of the Organization's 2017 sale of mortgages to a commercial bank. The LLC holds the receivables. The Organization continues to receive and service the mortgage receivables, collections, remits the proceeds to the LLC, who remits to the commercial bank.

RALSTON & COMPANY
certified public accountants

R. BRUCE SHEALY
KEVIN M. FRITZ
JON E. CORNAIRE
MICHAEL R. RITCH
GREGORY S. LACINA

ROBERT E. RALSTON
(1921 - 1986)

BERT J. PITTMAN, JR.
(1944 - 2019)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED 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 consolidated financial statements of Beaches Habitat for Humanity, Inc. (a non-profit organization), which comprise the consolidated financial position as of June 30, 2021, and the related consolidated statements of activities, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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 11, 2021