

# **Habitat for Humanity of Jacksonville, Inc.**

**(a non-profit organization)**

**Jacksonville, Florida**

**Financial Statements**

**June 30, 2016 and 2015**

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity of Jacksonville, Inc.  
Jacksonville, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Jacksonville, Inc. (a non-profit organization), which comprise the statements of financial position as of June 30, 2016, and 2015, and the related statements of activities, statements of functional expenses and statements of cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinion

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

*Ralston Company, PA*

September 12, 2016

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

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**ASSETS**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,819,695	\$ 1,108,229
Certificates of deposit	-	3,569,221
Pledges receivable	335,205	224,704
Mortgage notes receivable - net of accumulated amortization	12,381,324	12,453,499
Construction inventory	2,563,669	2,380,227
Prepaid and other assets	66,041	65,532
Property and equipment - net of accumulated depreciation	686,914	730,352
Land held for future use	<u>1,719,369</u>	<u>1,457,946</u>
 Total assets	 <u><u>\$ 21,572,217</u></u>	 <u><u>\$ 21,989,710</u></u>

**LIABILITIES AND NET ASSETS**

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 270,730	\$ 212,564
Accrued expenses	65,103	56,515
Mortgage purchase liability	358,275	94,100
Line of credit	2,025,000	2,025,000
Notes payable	812,184	1,056,123
Deposits and payments on houses awaiting closing	<u>17,162</u>	<u>11,745</u>
 Total liabilities	 3,548,454	 3,456,047
 Net assets - unrestricted	 <u>18,023,763</u>	 <u>18,533,663</u>
 Total liabilities and net assets	 <u><u>\$ 21,572,217</u></u>	 <u><u>\$ 21,989,710</u></u>

The accompanying notes are an integral part of this statement.

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

	<u>2016</u>	<u>2015</u>
Revenues		
Program service revenue	\$ 4,332,528	\$ 4,381,552
Contributions and sponsorships	2,514,190	2,430,111
Grants	65,883	1,055,767
Other income	66,222	50,691
	<hr/>	<hr/>
Total revenues	6,978,822	7,918,121
	<hr/>	<hr/>
Expenses		
Program services	6,440,283	7,485,010
Management and general	483,491	454,150
Fundraising	564,948	504,741
	<hr/>	<hr/>
Total expenses	7,488,722	8,443,901
	<hr/>	<hr/>
Change in net assets	(509,900)	(525,780)
Net assets - beginning of year	18,533,663	19,059,443
	<hr/>	<hr/>
Net assets - end of year	<u>\$ 18,023,763</u>	<u>\$ 18,533,663</u>

The accompanying notes are an integral part of this statement.

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

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	Program Services	Supporting Services Management and General	Fund Raising	2016 Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Salaries	\$ 1,281,479	\$ 229,386	\$ 129,953	\$ 1,640,818
Employee benefits	121,148	22,555	11,317	155,020
Payroll taxes	102,128	16,678	10,079	128,885
Total salaries and related expenses	<u>1,504,755</u>	<u>268,619</u>	<u>151,349</u>	<u>1,924,723</u>
Construction and supplies	3,223,706	322	-	3,224,028
Mortgage discounts, net of amortization	610,201	-	-	610,201
Tithe	-	-	327,376	327,376
Professional fees	204,475	63,277	22,243	289,995
Rent	267,784	2,636	1,332	271,752
Office and premises	146,068	26,046	28,391	200,505
Insurance	143,643	31,597	104	175,344
Vehicle expenses	92,646	270	140	93,056
Interest	73,633	-	-	73,633
Special events	17,951	20,892	11,687	50,530
Depreciation	-	48,864	-	48,864
Maintenance	45,864	-	-	45,864
Warranty	25,095	-	-	25,095
Advertising	5,668	237	18,525	24,430
Telephone and communications	17,422	3,434	1,718	22,574
Other	<u>61,372</u>	<u>17,297</u>	<u>2,083</u>	<u>80,752</u>
Total expenses	<u><u>\$ 6,440,283</u></u>	<u><u>\$ 483,491</u></u>	<u><u>\$ 564,948</u></u>	<u><u>\$ 7,488,722</u></u>

The accompanying notes are an integral part of this statement.

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

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	Program Services	Supporting Services Management and General	Fund Raising	2015 Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Salaries	\$ 1,197,362	\$ 214,329	\$ 121,423	\$ 1,533,114
Employee benefits	141,773	26,395	13,244	181,412
Payroll taxes	99,025	16,171	9,773	124,969
Total salaries and related expenses	1,438,160	256,895	144,440	1,839,495
Construction and supplies	3,926,102	393	-	3,926,495
Mortgage discounts, net of amortization	1,126,918	-	-	1,126,918
Rent	267,647	2,635	1,331	271,613
Professional fees	191,467	59,251	20,828	271,546
Tithe and donations	-	-	269,744	269,744
Office and premises	130,383	23,249	25,342	178,974
Insurance	110,513	24,310	80	134,903
Vehicle expenses	74,934	218	113	75,265
Interest	63,916	-	-	63,916
Depreciation	-	63,070	-	63,070
Advertising	11,796	493	38,555	50,844
Maintenance	45,300	-	-	45,300
Telephone and communications	17,281	3,406	1,704	22,391
Warranty	9,839	-	-	9,839
Special events	327	381	213	921
Other	70,427	19,849	2,391	92,667
Total expenses	<u>\$ 7,485,010</u>	<u>\$ 454,150</u>	<u>\$ 504,741</u>	<u>\$ 8,443,901</u>

The accompanying notes are an integral part of this statement.



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

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Decrease in unrestricted net assets	\$ (509,900)	\$ (525,780)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	48,864	63,070
Discounts on mortgages	767,730	1,126,918
Changes in assets and liabilities		
Pledges receivable	(110,502)	(167,184)
Construction inventory	(183,442)	(225,939)
Prepaid expenses and other assets	(509)	74,037
Accounts payable	58,166	(56,310)
Accrued expenses	8,588	14,074
Mortgage purchase liability	264,175	(480,677)
Deferred revenue	-	(7,000)
Deposits and payments on houses awaiting closing	5,417	(2,648)
Net cash provided (used) by operating activities	<u>348,587</u>	<u>(187,439)</u>
Cash flows from investing activities		
Net change in certificate of deposits	3,569,221	337,492
Changes in mortgage notes receivable - net of discounts	(695,555)	(1,197,384)
Purchase of property, plant and equipment	(5,426)	(22,700)
Transfer of land held for future use, net of purchase	(261,422)	(90,720)
Net cash provided (used) by investing activities	<u>2,606,818</u>	<u>(973,312)</u>
Cash flows from financing activities		
Proceeds from long-term debt	15,068	64,703
Net change on line of credit	-	425,000
Repayment of long-term debt	(259,007)	(47,322)
Net cash provided (used) by financing activities	<u>(243,939)</u>	<u>442,381</u>
Net increase (decrease) in cash and cash equivalents	2,711,466	(718,370)
Cash and cash equivalents, beginning of year	<u>1,108,229</u>	<u>1,826,599</u>
Cash and cash equivalents, end of year	<u>\$ 3,819,695</u>	<u>\$ 1,108,229</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 73,633</u>	<u>\$ 63,916</u>

See notes to the financial statements.

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

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**1. Organization and Purpose**

Habitat for Humanity of Jacksonville, Inc. (the Organization) was established March 28, 1988, to provide affordable housing for low income families in the Jacksonville, Florida area who have demonstrated a housing need, have the ability to repay a non-interest bearing mortgage, and have the willingness to volunteer 300 hours of their time to the project. These houses are constructed with the assistance of volunteer labor.

The Organization also operates a store at which donated supplies that are not designated for Organization homes are sold.

**2. Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below.

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 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 collectibility 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 houses are sold at or below market prices 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.

**Habitat for Humanity of Jacksonville, Inc.**  
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**June 30, 2016 and 2015**

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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 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. 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.

Income Taxes

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, the Organization is not taxed on income derived from its exempt functions. However, the Organization is subject to tax on unrelated business income, which is generated from the Organization's investment income and other activities not related to their stated exempt purposes. The Organization had no deferred income tax assets or liabilities as of June 30, 2016.

The Organization has evaluated its tax positions for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2013, 2014 and 2015 tax years. However, the Organization is not currently under audit nor has the Organization been contacted by any jurisdiction. Based on the evaluation of the Organization's tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the fiscal year ended June 30, 2016.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. Included in cash and equivalents at June 30, 2016 are \$2,680,751 short term certificates of deposit.

**Habitat for Humanity of Jacksonville, Inc.**  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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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 or below market prices. The mortgage receivable due from the homeowner is adjusted to reflect the value of significant volunteer credits in the form of internal down payment assistance, thus meeting the requirements of the national organization.

Functional Classification of Expenses

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

Revenue and Cost Recognition

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

Date of Management's Review

Subsequent events have been evaluated through September 12, 2016, the date these financial statements were available to be issued.

**3. Pledges Receivable**

Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2016.

**4. Mortgage Notes Receivable**

The Organization provides 100% financing on homes purchased over a 15 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.

**Habitat for Humanity of Jacksonville, Inc.**  
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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 Statements 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. Rate used for the years ending June 30, 2016 and 2015 was 7.51% and 7.48% respectively.

The Organization has an underwriting agreement with a commercial bank, whereby the bank acts as an underwriter and loan processor. At closing, the bank issues payment to the Organization. After finalization and approval, the Organization purchases the mortgage from the bank dollar for dollar, plus certain closing costs. Loans awaiting final approval for payment to the bank are reflected as a mortgage purchase liability on the Statements of Financial Position.

	<u>2016</u>	<u>2015</u>
Mortgage notes receivable	\$ 26,280,258	\$ 25,912,708
Less: Unamortized discount	<u>(13,898,934)</u>	<u>(13,459,209)</u>
	<u>\$ 12,381,324</u>	<u>\$ 12,453,499</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 a high demand for affordable housing in the area, the Organization has made no allowance for uncollectible mortgages.

Periodically the Organization will sell mortgage receivables at a discount of face value. No mortgages were sold during the years ended June 30, 2016 and 2015.

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

As of June 30, 2016 and 2015, the Organization had 178 and 205 delinquent loans, respectively, with approximate delinquent amounts of \$399,000 and \$727,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2016 and 2015 is approximately \$8,738,000 and \$9,450,000, respectively.

Included in mortgage notes receivable at the end of June 30, 2016 and 2015 are 4 mortgages totaling \$184,124 and \$190,706, respectively, on houses completed and closed but for which clear title has not been obtained. The title issues relate to land deeded by a governmental entity. During the year ended June 30, 2008, the Organization closed these mortgages without title insurance, indemnifying the homeowners of any potential future issues, which the Organization believes are remote.

Mortgages totaling \$4,861,513 are pledged as collateral on the line of credit at June 30, 2016.

**Habitat for Humanity of Jacksonville, Inc.**  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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**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 construction in progress until a mortgage is signed on the house.

At June 30, 2016 and 2015, there were 10 and 10 completed but unclosed houses as well as 15 and 25 homes in process, respectively. There were 8 and 17 repurchased homes at June 30, 2016 and 2015, respectively. The detail of the construction inventory is as follows:

	<u>2016</u>	<u>2015</u>
Construction supplies	\$ 73,457	\$ 75,203
Construction in progress	2,107,916	1,787,229
Repurchased homes	382,297	517,795
	<u>\$ 2,563,669</u>	<u>\$ 2,380,227</u>

**6. Property and Equipment**

Major classes of property and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Land and buildings	\$ 1,035,584	\$ 1,035,584
Office equipment	242,625	237,199
Vehicles	158,141	174,303
Construction equipment	104,458	104,458
	<u>1,540,808</u>	<u>1,551,543</u>
Less accumulated depreciation	(853,894)	(821,191)
	<u>\$ 686,914</u>	<u>\$ 730,352</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. 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 1% of the home contract sale price are collected on all houses and applied to reduce the mortgage at closing.

**Habitat for Humanity of Jacksonville, Inc.**  
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**8. Line of Credit**

The Organization has a line of credit with EverBank, allowing for borrowings up to \$3,000,000, subject to a borrowing base calculation, with interest at one month LIBOR rate plus 2.5%, with a floor rate of 3% and a ceiling rate of 5%, currently at 3% at June 30, 2016, with interest payable monthly. The line of credit is collateralized by mortgage receivables and inventories of the Organization. At June 30, 2016 and 2015, the Organization had drawn \$2,025,000 and \$2,025,000, respectively, on the line of credit.

**9. Notes Payable**

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

	<u>2016</u>	<u>2015</u>
Unsecured with \$31,387 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$653 beginning July 2016 and maturing July 2020.	\$ 11,567	\$ -
Unsecured with \$6,250 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$130 beginning January 2018 and maturing January 2022.	3,501	-
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$78 beginning July 2012 and maturing June 2016.	-	942
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$601 beginning July 2012 and maturing June 2016.	-	7,253
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$386 beginning July 2012 and maturing June 2016.	-	4,672
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$215 beginning January 2013 and maturing December 2016.	2,581	5,161
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$740 beginning July 2013 and maturing June 2017.	8,916	17,796

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Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$138 beginning January 2014 and maturing December 2017.	2,527	4,183
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$258 beginning July 2014 and maturing June 2018.	4,649	7,745
Unsecured with \$47,250 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$984 beginning July 2013 and maturing June 2017.	17,730	29,538
Unsecured with \$3,375 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$70 beginning January 2015 and maturing December 2018.	2,535	3,375
Unsecured with \$20,250 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$421 beginning January 2015 and maturing December 2018.	15,198	20,250
Unsecured with \$81,000 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$1,687 beginning January 2016 and maturing December 2019.	70,878	81,000
Unsecured with \$16,875 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$351 beginning July 2016 and maturing June 2020.	7,400	9,506
Unsecured with \$37,000 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$770 beginning July 2016 and maturing June 2020.	37,000	37,000



**Habitat for Humanity of Jacksonville, Inc.**  
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Unsecured with \$25,900 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$539 beginning January 2017 and maturing December 2020.	7,685	7,685
Unsecured with \$35,000 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$729 beginning July 2016 and maturing June 2020.	20,017	20,017
Unsecured promissory note in the amount of \$800,000, interest at 2.0%, 60 monthly interest only payments, four annual principal payments of \$200,000 beginning July 2015 and maturing July 2019.	600,000	800,000
	<u>812,184</u>	<u>1,056,123</u>
Less current portion	287,463	56,814
Long-term portion	<u>\$ 524,721</u>	<u>\$ 999,309</u>

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

2017	\$ 287,463
2018	264,620
2019	239,515
2020	20,586
2021	-
Thereafter	-
	<u>\$ 812,184</u>

**10. Lease Commitments**

The Organization leases the space for one Re-Store through June 2021 under an operating lease with monthly payments of \$17,101, adjusted annually. The Organization has various operating leases for office equipment and vehicles.

**Habitat for Humanity of Jacksonville, Inc.**  
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**June 30, 2016 and 2015**

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Future estimated lease payments under non cancelable operating leases for the next five years and in the aggregate are as follows:

2017	\$	213,640
2018		215,879
2019		218,063
2020		219,654
2021		214,171
Thereafter		-
	\$	<u>1,081,407</u>

**11. Concentrations of Credit Risk**

Since the Organization's home sales are concentrated within one geographic location (Duval County) to individuals who may 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 risk is further addressed by the loans being carried at a significant discount as discussed in Note 4.

The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. As of June 30, 2016, the uninsured balance is \$498,207. The Organization believes it is not exposed to any significant credit risk on its cash balances.

**12. Affiliation**

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

**13. Retirement Plan**

The Organization has a 401(k) retirement plan. The Organization matches 50% of the employee contributions up to 6%. An employee is vested after two years. The total employer contributions for June 30, 2016 and 2015 were \$48,109 and \$43,392, respectively.

**14. Separate Cash Accounts**

Certain grants require separate cash accounts and/or accounting. The Organization is in compliance with these requirements.

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

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**15. In-kind Donations**

In-kind donations are valued at estimated fair value. Total in-kind donations were \$275,727 and \$128,464 for the years ended June 30, 2016 and 2015, respectively. Donations were primarily land, construction supplies and related professional services.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Habitat for Humanity of Jacksonville, Inc.  
Jacksonville, 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 Habitat for Humanity of Jacksonville, Inc. (a non-profit organization), which comprise the financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2016.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Habitat for Humanity of Jacksonville, 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 effect 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ralston & Company, PA*

September 12, 2016