

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

**(a non-profit organization)**

**Jacksonville, Florida**

**Financial Statements**

**June 30, 2017 and 2016**

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
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RALSTON & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
8777 SAN JOSE BOULEVARD, SUITE 600  
JACKSONVILLE, FLORIDA 32217-4213

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

ROBERT E. RALSTON  
(1921 - 1986)  
BERT J. PITTMAN, JR.  
(RETIRED)

TELEPHONE (904) 730-0440  
FAX (904) 730-0993  
EMAIL cpas@ralstonco.com

**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, 2017 and 2016, 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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, 2017 and 2016, 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.

## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, and Schedule of Findings and Questioned Costs, as required by Title 2 *Code of Federal Regulations* Part 200, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of Habitat for Humanity of Jacksonville, 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 Habitat for Humanity of Jacksonville, Inc.'s internal control over financial reporting and compliance.

*Ralston Company, PA*

October 12, 2017

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

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**ASSETS**

|   | <u>2017</u>              | <u>2016</u>              |
|---|--------------------------|--------------------------|
| Cash and cash equivalents                                   | \$ 3,021,236             | \$ 3,819,696             |
| Pledges receivable  | 84,133                   | 335,205                  |
| Grants receivable   | 866,166                  | -                        |
| Mortgage notes receivable - net of accumulated amortization | 13,633,722               | 12,381,324               |
| Construction inventory                                      | 2,010,220                | 2,563,669                |
| Prepaid and other assets                                    | 43,524                   | 66,041                   |
| Property and equipment - net of accumulated depreciation    | 752,965                  | 686,914                  |
| Land held for future use                                    | <u>1,736,034</u>         | <u>1,719,368</u>         |
| <br>Total assets  | <br><u>\$ 22,148,000</u> | <br><u>\$ 21,572,217</u> |

**LIABILITIES AND NET ASSETS**

|  | <u>2017</u>              | <u>2016</u>              |
|--|--------------------------|--------------------------|
| Accounts payable                                 | \$ 141,991               | \$ 270,730               |
| Accrued expenses                                 | 114,171                  | 65,103                   |
| Mortgage purchase liability                      | 95,901                   | 358,275                  |
| Line of credit                                   | 2,225,000                | 2,025,000                |
| Notes payable                                    | 602,888                  | 812,184                  |
| Deposits and payments on houses awaiting closing | <u>21,332</u>            | <u>17,162</u>            |
| <br>Total liabilities                            | <br><u>3,201,283</u>     | <br><u>3,548,454</u>     |
| <br>Net assets :                                 |                          |                          |
| <br>Unrestricted                                 | <br>17,846,717           | <br>18,023,763           |
| Temporarily restricted                           | <u>1,100,000</u>         | <u>-</u>                 |
| <br>Total net assets                             | <br><u>18,946,717</u>    | <br><u>18,023,763</u>    |
| <br>Total liabilities and net assets             | <br><u>\$ 22,148,000</u> | <br><u>\$ 21,572,217</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, 2017 and 2016**

|   | <u>2017</u>                 | <u>2016</u>                 |
|---|-----------------------------|-----------------------------|
| Changes in unrestricted net assets:       |                             |                             |
| Revenues                                  |                             |                             |
| Program service revenue                   | \$ 4,587,531                | \$ 4,332,528                |
| Contributions and sponsorships            | 1,917,571                   | 2,514,190                   |
| Grants                                    | 985,466                     | 65,883                      |
| Other income                              | 24,391                      | 66,222                      |
|   | <u>7,514,959</u>            | <u>6,978,822</u>            |
| Expenses                                  |                             |                             |
| Program services                          | 6,794,209                   | 6,440,283                   |
| Management and general                    | 506,783                     | 483,491                     |
| Fundraising                               | 391,013                     | 564,948                     |
|   | <u>7,692,005</u>            | <u>7,488,722</u>            |
| Change in unrestricted net assets         | (177,046)                   | (509,900)                   |
| Changes in temporarily restricted assets: |                             |                             |
| Contribution                              | <u>1,100,000</u>            | <u>-</u>                    |
| Increase (decrease) in net assets:        | 922,954                     | (509,900)                   |
| Net assets - beginning of year            | <u>18,023,763</u>           | <u>18,533,663</u>           |
| Net assets - end of year                  | <u><u>\$ 18,946,717</u></u> | <u><u>\$ 18,023,763</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, 2017**

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|  | Program<br>Services         | Supporting<br>Services<br>Management<br>and General | Fund<br>Raising             | 2017<br>Total               |
|--|-----------------------------|---|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u>                         | <u>                    </u> | <u>                    </u> |
| Salaries                                   | \$ 1,350,123                | \$ 241,674  | \$ 136,914                  | \$ 1,728,711                |
| Employee benefits                          | 117,757                     | 21,924  | 11,000                      | 150,681                     |
| Payroll taxes                              | 131,065                     | 21,403  | 12,934                      | 165,402                     |
| Total salaries and<br>related expenses     | 1,598,945                   | 285,001   | 160,848                     | 2,044,794                   |
| Construction and supplies                  | 3,779,696                   | 378   | -                           | 3,780,074                   |
| Rent                                       | 334,575                     | 3,293   | 1,664                       | 339,532                     |
| Professional fees                          | 236,154                     | 73,080  | 25,689                      | 334,923                     |
| Office and premises                        | 177,632                     | 31,674  | 34,526                      | 243,832                     |
| Insurance                                  | 139,124                     | 30,603  | 101                         | 169,828                     |
| Mortgage discounts, net<br>of amortization | 146,426                     | -   | -                           | 146,426                     |
| Tithe                                      | -                           | -   | 133,373                     | 133,373                     |
| Interest                                   | 90,190                      | -   | -                           | 90,190                      |
| Vehicle expenses                           | 79,359                      | 231   | 120                         | 79,711                      |
| Maintenance                                | 70,164                      | -   | -                           | 70,164                      |
| Depreciation                               | -                           | 39,485  | -                           | 39,485                      |
| Special events                             | 13,497                      | 15,706  | 8,786                       | 37,989                      |
| Advertising                                | 6,474                       | 271   | 21,161                      | 27,906                      |
| Telephone and<br>communications            | 19,845                      | 3,911   | 1,957                       | 25,713                      |
| Warranty                                   | 19,989                      | -   | -                           | 19,989                      |
| Other                                      | 82,139                      | 23,150  | 2,788                       | 108,077                     |
| Total expenses                             | <u><u>\$ 6,794,209</u></u>  | <u><u>\$ 506,783</u></u>                            | <u><u>\$ 391,013</u></u>    | <u><u>\$ 7,692,005</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, 2016**

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|  | Program<br>Services        | Supporting<br>Services<br>Management<br>and General | Fund<br>Raising          | 2016<br>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<br>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<br>of amortization | 610,201                    | -   | -                        | 610,201                    |
| Tithe and donations                        | -                          | -   | 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<br>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)**  
**Statements of Cash Flows**  
**For the years ended June 30, 2017 and 2016**

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities   |                     |                     |
| Increase (decrease) in net assets  | \$ 922,954          | \$ (509,900)        |
| Adjustments to reconcile increase in net assets<br>to net cash provided by operating activities: |                     |                     |
| Depreciation   | 39,485              | 48,864              |
| Discounts on mortgages   | 146,426             | 610,201             |
| Changes in assets and liabilities  |                     |                     |
| Pledges receivable   | 251,072             | (110,502)           |
| Grants receivable  | (866,166)           | -                   |
| Construction inventory   | 553,450             | (183,442)           |
| Prepaid expenses and other assets  | 22,517              | (509)               |
| Accounts payable   | (128,739)           | 58,166              |
| Accrued expenses   | 49,068              | 8,588               |
| Mortgage purchase liability  | (262,374)           | 264,175             |
| Deposits and payments on houses awaiting closing   | 4,169               | 5,417               |
| Net cash provided by operating activities  | <u>731,862</u>      | <u>191,058</u>      |
| Cash flows from investing activities   |                     |                     |
| Net change in certificate of deposits  | -                   | 3,569,221           |
| Changes in mortgage notes receivable - net of discounts  | (1,398,825)         | (538,026)           |
| Purchase of property, plant and equipment  | (105,536)           | (5,426)             |
| Transfer of land held for future use, net of purchase  | (16,665)            | (261,421)           |
| Net cash (used) provided by investing activities   | <u>(1,521,026)</u>  | <u>2,764,348</u>    |
| Cash flows from financing activities   |                     |                     |
| Proceeds from long-term debt   | 58,913              | 15,068              |
| Net change on line of credit   | 200,000             | -                   |
| Repayment of long-term debt  | (268,209)           | (259,007)           |
| Net cash used by financing activities  | <u>(9,296)</u>      | <u>(243,939)</u>    |
| Net increase (decrease) in cash and cash equivalents   | (798,460)           | 2,711,467           |
| Cash and cash equivalents, beginning of year   | <u>3,819,696</u>    | <u>1,108,229</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 3,021,236</u> | <u>\$ 3,819,696</u> |
| Supplemental disclosure of cash flow information   |                     |                     |
| Cash paid for interest   | <u>\$ 90,190</u>    | <u>\$ 73,633</u>    |

See notes to the financial statements.

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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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.

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.**  
**(a non-profit organization)**  
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**June 30, 2017 and 2016**

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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, 2017. The Organization is no longer subject to U.S. Federal income tax examinations by the tax authorities for years before June 30, 2014.

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.

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.

**Habitat for Humanity of Jacksonville, Inc.**  
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**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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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 October 12, 2017, 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, 2017.

**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.

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, 2017 and 2016 was 7.48% and 7.51% respectively.

**Habitat for Humanity of Jacksonville, Inc.**  
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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>2017</u>          | <u>2016</u>          |
|----------------------------|----------------------|----------------------|
| Mortgage notes receivable  | \$ 27,421,245        | \$ 26,280,258        |
| Less: Unamortized discount | <u>(13,787,523)</u>  | <u>(13,898,934)</u>  |
|                            | <u>\$ 13,633,722</u> | <u>\$ 12,381,324</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, 2017 and 2016.

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

As of June 30, 2017 and 2016, the Organization had 206 and 178 delinquent loans, respectively, with approximate delinquent amounts of \$353,000 and \$399,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2017 and 2016 is approximately \$9,022,000 and \$8,738,000, respectively.

Included in mortgage notes receivable at the end of June 30, 2017 and 2016 are 4 mortgages totaling \$169,299 and \$184,124, 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 \$8,284,825 are pledged as collateral on the line of credit at June 30, 2017.

**5. Construction Inventory**

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

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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At June 30, 2017 and 2016, there were 18 and 10 completed but unclosed houses as well as 1 and 15 homes in process, respectively. There were 3 and 8 repurchased homes at June 30, 2017 and 2016, respectively. The detail of the construction inventory is as follows:

|                          | <u>2017</u>         | <u>2016</u>         |
|--------------------------|---------------------|---------------------|
| Construction supplies    | \$ 47,788           | \$ 73,457           |
| Construction in progress | 1,733,324           | 2,107,916           |
| Repurchased homes        | 229,108             | 382,297             |
|                          | <u>\$ 2,010,220</u> | <u>\$ 2,563,669</u> |

**6. Property and Equipment**

Major classes of property and equipment are as follows:

|                               | <u>2017</u>       | <u>2016</u>       |
|-------------------------------|-------------------|-------------------|
| Land and buildings            | \$ 1,075,751      | \$ 1,035,584      |
| Office equipment              | 251,462           | 242,625           |
| Vehicles                      | 182,005           | 158,141           |
| Construction equipment        | 115,257           | 104,458           |
|                               | <u>1,624,474</u>  | <u>1,540,808</u>  |
| Less accumulated depreciation | (871,509)         | (853,894)         |
|                               | <u>\$ 752,965</u> | <u>\$ 686,914</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.

**8. Line of Credit**

The Organization has a line of credit with EverBank, allowing for borrowings up to \$4,000,000, subject to a borrowing base calculation, with interest at one month LIBOR rate plus 2.5%, with a floor rate of 3.25% and a ceiling rate of 5.25%, currently at 3.54% at June 30, 2017, with interest payable monthly. The line of credit is collateralized by mortgage receivables and inventories of the Organization. At June 30, 2017 and 2016, the Organization had drawn \$2,225,000 and \$2,025,000, respectively, on the line of credit.

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**9. Notes Payable**

The Organization had the following notes payable at June 30, 2017 and 2016:

|  | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$130 beginning July 2019 and maturing June 2023.                                       | \$ 6,250    | \$ -        |
| Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$260 beginning July 2019 and maturing June 2023.                                       | 12,500      | -           |
| Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$520 beginning July 2019 and maturing June 2023.                                       | 4,800       | -           |
| Vehicle loan of \$32,614 with a commercial bank with interest at 4.49%, payable in 60 monthly principal and interest payments of \$609 beginning March 2017 and maturing February 2023.        | 30,663      | -           |
| 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      | 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. | 6,250       | 3,501       |
| Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$138 beginning January 2014 and maturing December 2017.                                | 871         | 2,527       |
| Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of \$258 beginning July 2014 and maturing June 2018.                                       | 1,553       | 4,649       |
| 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.      | 5,922       | 17,730      |

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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|  |         |         |
|--|---------|---------|
| 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.     | 1,695   | 2,535   |
| 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.   | 10,146  | 15,198  |
| 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. | 50,634  | 70,878  |
| 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.          | 3,188   | 7,400   |
| 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.          | 32,380  | 37,000  |
| 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.   | 4,452   | 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  | -       |
| 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. | 400,000 | 600,000 |



**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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|   |                   |                   |
|---|-------------------|-------------------|
| 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             |
| 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             |
|   | <u>602,888</u>    | <u>812,184</u>    |
| Less current portion  | 269,033           | 287,463           |
| Long-term portion   | <u>\$ 333,855</u> | <u>\$ 524,721</u> |

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

|            |                   |
|------------|-------------------|
| 2018       | \$ 269,033        |
| 2019       | 258,067           |
| 2020       | 37,649            |
| 2021       | 21,309            |
| 2022       | 12,250            |
| Thereafter | 4,580             |
|            | <u>\$ 602,888</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. A second Re-Store is leasing space through April 2024 under an operating lease with monthly payments of \$17,183 for 60 months and then \$18,504 for 24 months. The Organization has various operating leases for office equipment and vehicles.

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

|            |                     |
|------------|---------------------|
| 2018       | \$ 440,504          |
| 2019       | 440,156             |
| 2020       | 431,262             |
| 2021       | 422,387             |
| 2022       | 222,054             |
| Thereafter | 426,926             |
|            | <u>\$ 2,383,289</u> |

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

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**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, 2017, the uninsured balance is \$2,364,635. 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, 2017 and 2016 were \$57,594 and \$48,109, respectively.

**14. Separate Cash Accounts**

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

**15. In-kind Donations**

In-kind donations are valued at estimated fair value. Total in-kind donations were \$166,048 and \$275,727 for the years ended June 30, 2017 and 2016, respectively. Donations were primarily land, construction supplies and related professional services.

**16. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 consisted of a \$1,100,000 contribution designated for a specific construction project. The construction is expected to begin and be completed in the year ending June 30, 2018.

SUPPLEMENTAL INFORMATION

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2017**

| <u>Federal Grants/Pass-Through Grantor/<br/>Program Title</u>  | <u>Period</u>     | <u>CFDA /<br/>CSFA<br/>Number</u> | <u>Award<br/>Amount</u> | <u>Federal<br/>Awards<br/>Expenditures</u> | <u>Transfer<br/>To<br/>Subrecipients</u> |
|--|-------------------|-----------------------------------|-------------------------|--|--|
| <b><u>Federal Awards:</u></b>  |                   |                                   |                         |  |  |
| U.S. Department of Housing and Urban Development:  |                   |                                   |                         |  |  |
| Home Investments Partnership Development<br>pass through from City of Jacksonville   | 10/1/16 - 9/30/17 | 14.239                            | 842,059                 | \$ 842,059                                 | \$ -                                     |
| Self-Help Ownership Opportunity Program -<br>2014 through Habitat for Humanity<br>International, Inc.                            | 1/26/15 - 1/26/17 | 14.247                            | 100,000                 | 85,993                                     | -  |
| Self-Help Ownership Opportunity Program -<br>2015 through Habitat for Humanity,<br>International, Inc.                           | 7/20/16 - 7/20/19 | 14.247                            | 100,000                 | 19,202                                     | -  |
| Section 4 Capacity Building for Community<br>Development and Affordable Housing<br>through Local Initiatives Support Corporation | 10/1/16 - 9/30/17 | 14.252                            | 25,000                  | 15,763                                     | -  |
|  |                   |                                   |                         | <u>\$ 963,017</u>                          | <u>\$ -</u>                              |

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal award activity of Habitat for Humanity of Jacksonville, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of Jacksonville, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - INDIRECT COST RATE**

Habitat for Humanity of Jacksonville, Inc has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Schedule of Findings and Questioned Costs – Federal Programs**  
**For the year ended June 30, 2017**

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**Section I - Summary of Independent Auditors' Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are Not considered to be material weaknesses?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over the major program:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are Not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?  Yes  No

Identification of major program:

| CFDA Number | Name of Federal Program or Cluster          |
|-------------|---|
| 14.239      | HUD Home Investment Partnership Development |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

**Habitat for Humanity of Jacksonville, Inc.**  
**(a non-profit organization)**  
**Schedule of Findings and Questioned Costs – Federal Programs**  
**For the year ended June 30, 2017**

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**Section II – Financial Statement Findings**

There were no financial statement findings reported during the 2017 audit.

**Section III – Federal Award Findings and Questioned Costs**

There were no federal award findings or questioned costs reported during the 2017 audit.

RALSTON & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
8777 SAN JOSE BOULEVARD, SUITE 600  
JACKSONVILLE, FLORIDA 32217-4213

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

ROBERT E. RALSTON  
(1921 - 1986)

BERT J. PITTMAN, JR.  
(RETIRED)

TELEPHONE (904) 730-0440  
FAX (904) 730-0993  
EMAIL cpas@ralstonco.com

**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, 2017, 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 October 12, 2017.

**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*

October 12, 2017



RALSTON & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
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EMAIL cpas@ralstonco.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Habitat for Humanity of Jacksonville, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity of Jacksonville, Inc.'s major federal programs for the year ended June 30, 2017. Habitat for Humanity of Jacksonville, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity of Jacksonville, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of Jacksonville, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Habitat for Humanity of Jacksonville, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Habitat for Humanity of Jacksonville, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of Habitat for Humanity of Jacksonville, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity of Jacksonville, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Jacksonville, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Ralston & Company, PA*

October 12, 2017