

Beaches Habitat for Humanity, Inc.

(a non-profit organization)

Atlantic Beach, Florida

Consolidated Financial Statements

June 30, 2022 and 2021

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

To the Board of Directors
Beaches Habitat for Humanity, Inc.
Atlantic Beach, Florida

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Beaches Habitat for Humanity, Inc. (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beaches Habitat for Humanity, Inc. as of June 30, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Beaches Habitat for Humanity, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Beaches Habitat for Humanity, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Beaches Habitat for Humanity, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Beaches Habitat for Humanity, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2022, on our consideration of Beaches Habitat for Humanity, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beaches Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

Ralston : Company

December 20, 2022

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	ASSETS	
	<u>2022</u>	<u>2021</u>
Cash	\$ 2,970,829	\$ 2,492,171
Escrow deposits	363,384	399,659
Accounts receivable, net of allowance	104,187	262,737
Prepaid deposits	27,320	13,082
Mortgages receivable held	1,126,809	1,198,017
Mortgage notes receivable - net of unearned discount	3,017,494	2,818,514
Construction inventory	1,829,177	1,732,103
Property and equipment - net of accumulated depreciation of \$319,789 and \$296,301	<u>661,532</u>	<u>667,709</u>
 Total assets	 <u><u>\$ 10,100,732</u></u>	 <u><u>\$ 9,583,992</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 39,767	\$ 43,284
Accrued expenses	115,642	33,073
Escrow payable	377,346	413,621
Notes payable	1,277,422	1,564,919
Other liabilities	<u>1,460</u>	<u>1,050</u>
 Total liabilities	 <u><u>1,811,637</u></u>	 <u><u>2,055,947</u></u>
Net assets:		
Without donor restrictions	<u>8,289,095</u>	<u>7,528,045</u>
 Total net assets	 <u><u>8,289,095</u></u>	 <u><u>7,528,045</u></u>
 Total liabilities and net assets	 <u><u>\$ 10,100,732</u></u>	 <u><u>\$ 9,583,992</u></u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Activities
For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions		
Support and revenue		
Contributions and sponsorships	\$ 1,121,019	\$ 933,017
Program service	866,406	1,864,998
Mortgage discount amortization	309,946	292,804
Loan forgiveness	153,629	162,812
Noncash contributions	75,021	88,523
Grants	47,314	214,465
Interest income	2,720	13,610
Gain on mortgage sale, foreclosures, and swaps	-	1,055,702
Other income	17,958	20,456
	<u>2,594,013</u>	<u>4,646,387</u>
Total support and revenue		
Expenses		
Program services	1,260,328	2,916,305
Management and general	449,648	450,657
Fundraising	122,987	106,391
	<u>1,832,963</u>	<u>3,473,353</u>
Total expenses		
Increase in net assets without donor restrictions	761,050	1,173,034
Net assets - beginning of year	<u>7,528,045</u>	<u>6,355,011</u>
Net assets - end of year	<u><u>\$ 8,289,095</u></u>	<u><u>\$ 7,528,045</u></u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2022

	Program Services	Supporting Services Management and General	Fund Raising	2022 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Salaries	\$ 386,281	\$ 322,029	\$ 58,425	\$ 766,735
Employee benefits	37,828	31,536	5,721	75,085
Payroll taxes	26,746	22,296	4,046	53,088
	<u>450,855</u>	<u>375,861</u>	<u>68,192</u>	<u>894,908</u>
Construction and supplies	557,534	-	-	557,534
Professional fees	88,553	29,518	-	118,071
Office and premises	55,102	18,368	-	73,470
Special events	-	-	54,795	54,795
Educational program	53,206	-	-	53,206
Depreciation	11,744	11,743	-	23,487
Bad debts	11,756	5,790	-	17,546
Insurance	9,347	4,604	-	13,951
Tithe	10,000	-	-	10,000
Printing and postage	3,396	1,673	-	5,069
Travel	4,588	-	-	4,588
Other	4,247	2,091	-	6,338
	<u>\$ 1,260,328</u>	<u>\$ 449,648</u>	<u>\$ 122,987</u>	<u>\$ 1,832,963</u>

The accompanying notes are an integral part of this statement.

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

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

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 761,050	\$ 1,173,034
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	23,487	21,586
Loan forgiveness	(153,629)	(162,812)
Discounts amortization mortgages, net	(309,946)	474,540
Gain on mortgage sale, foreclosures, and swaps	-	1,055,702
Changes in assets and liabilities		
Escrow deposits	36,275	27,397
Accounts receivable	158,550	(108,308)
Prepaid insurance	(14,238)	12,139
Construction inventory	(97,074)	332,973
Accounts payable	(3,517)	245
Accrued expenses	82,569	(22,664)
Escrow payable	(36,275)	(14,024)
Other liabilities	410	(26,497)
Net cash provided by operating activities	<u>447,662</u>	<u>2,763,311</u>
Cash flows from investing activities		
Purchases of equipment	(17,310)	(5,422)
Change in mortgage receivables held	71,208	155,837
Changes in mortgage notes receivable - net of discounts	110,966	(495,439)
Net cash provided (used) by investing activities	<u>164,864</u>	<u>(345,024)</u>
Cash flows from financing activities		
Proceeds on long-term debt	-	157,551
Repayment of long-term debt	(133,868)	(386,877)
Net cash used by financing activities	<u>(133,868)</u>	<u>(229,326)</u>
Net increase in cash	478,658	2,188,961
Cash at beginning of year	<u>2,492,171</u>	<u>303,210</u>
Cash at end of year	<u>\$ 2,970,829</u>	<u>\$ 2,492,171</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ -</u>	<u>\$ 3,585</u>
Cash paid for income taxes	<u>\$ N/A</u>	<u>\$ N/A</u>

The accompanying notes are an integral part of this statement.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

1. Organization and Purpose

Beaches Habitat for Humanity, Inc. (the Organization) was established November 28, 1990 as an independent affiliate of Habitat for Humanity International. The Organization seeks to put God's love into action, bringing people together to build homes, communities and hope. Primary programs include building new homes, renovating and repairing existing homes for families in need in eastern Duval County Florida, particularly in the beaches communities of Atlantic Beach, Neptune Beach, and Jacksonville Beach. Homes are sold to working low-income families who qualified for the homeownership programs and meet required volunteer hours. Homeowners purchase their homes with an interest free mortgage held by the Organization.

Recognizing the importance of education in breaking the cycle of poverty, the Organization offers a number of educational support and enrichment programs to assist students and families in achieving their highest academic potential. In addition, the Organization provides access to college scholarship programs.

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

2. Summary of Significant Accounting Principles

Principles of Consolidation

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

Basis of Accounting

The consolidated financial statements of the Organization are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the transfer to the homeowner. Construction costs are capitalized and carried as an asset until the property is completed and sold.

Basis of Presentation

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

Revenue and Cost Recognition

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

Beaches Habitat for Humanity, Inc.
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Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

Homes sales – The Organization recognizes revenues from construction of homebuilding contracts at the closing of the sales using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and general and administrative costs are charged to expense as incurred. Payment typically is due over time in installments, based on terms specified in the contracts. All mortgages and contracts for deed are due based on the notes terms. Construction costs include all direct material and labor cost, subcontract cost and those indirect costs related to construction of the home, such as indirect labor, supplies, tools, and repairs. Selling, general and administrative costs are charged to expenses as incurred.

Contributions

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

Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less the cost to sell. Long-lived assets were measured for impairment and no adjustments were deemed necessary during the years ended June 30, 2022 and 2021.

Donated Materials, Long-lived Assets, Facilities & Services

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use facilities are recorded as contributions in the period received at fair value. Contribution of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills. A substantial number of volunteers have donated a significant amount of their time to the Organization and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

Accounts Receivable

Accounts receivable are valued at net realizable value through an allowance for doubtful accounts. The allowance for doubtful accounts was \$37,841 and \$20,295 at June 30, 2022 and 2021, respectively.

Mortgages Receivable Held

As indicated in Note 15, the fully owned LLC was used as a funding instrument in a 2017 mortgage sale to a commercial bank. For purposes of continued servicing of the mortgages, the LLC was established to hold the receivables. The Organization receives service collections, remits the proceeds to the LLC, who remits to the commercial bank.

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

Mortgage Notes Receivable

The Organization has a policy of selling affordable housing with interest free mortgages. Therefore, mortgages receivable do not have a stated interest rate. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. The Organization does not maintain an allowance for uncollectible mortgages receivable because the home buyers are allowed a significant credit for their volunteer labor and the Organization has the ability to foreclose on properties and resell them to collect any past due amounts. All mortgages and contracts for deed are due based on the notes terms. Management believes all mortgages and contracts for deed receivable are realizable through either collection or foreclosure proceeds, if not collected.

Inventories

Inventories consist of construction supplies and homes. The construction supplies are valued at the lower of cost or market. Cost is determined on the first-in, first out method. Donated items are recorded at estimated fair value at the date of donation. Home inventory consists of houses and lots constructed or purchased by the Organization for the rehabilitation and resale. The houses and lots are valued at the lower of specific acquisition and carrying costs or estimated net value. Any additional costs to rehabilitate the homes are added to the carrying cost of the home.

Repurchased Homes

Repurchased homes acquired through or in lieu of loan foreclosure are initially recorded at the lesser of outstanding loan balance less the outstanding discount on the loan or the fair value. Any write-down on the asset to fair value at the date of acquisition is charged to loss on the statement of activities. Cost of significant property improvements are added to the cost of the home, whereas costs relating to holding the property are expensed.

Property and Equipment

Acquisition of property and equipment are capitalized at cost, or if donated, at fair value at the date of donation. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the Statement of Activities. Depreciation is computed using straight-line and accelerated methods over the useful lives of the assets.

Notes Payable

Notes payable are recorded at their outstanding principal amounts.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Other income from operations not directly related to the Organization's non-profit purposes is taxable at the regular corporate tax rates. The Organization is no longer subject to U.S. Federal income tax examinations by the tax authorities for years before June 30, 2019.

Valuation

To best reflect economic realities and comply with certain grant requirements, the selling price of new homes is at approximate appraisal value. The mortgage receivable due from the homeowner is adjusted to reflect the value of significant volunteer credits in the form of internal down payment assistance, thus meeting the requirements of the national organization.

Functional Classification of Expenses

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

Revenue and Cost Recognition

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

Reclassifications

Certain balances from the 2021 consolidated financial statements have been reclassified to conform to the 2022 consolidated financial statement presentation. Such reclassifications had no effect on the previously reported increase in net assets for the year ended June 30, 2022.

Date of Managements' Review

Subsequent events were evaluated through December 20, 2022, the date the financial statements were available for release.

Accounting Pronouncement Adopted

Effective July 1, 2021, the Organization adopted Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07). The amendments in this update apply to nonprofit organizations that receive contributed nonfinancial assets. Contribution revenue may be presented in the consolidated financial statements using different terms for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms. The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets such as land, buildings, and equipment, use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

Beaches Habitat for Humanity, Inc.
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Notes to the Consolidated Financial Statements
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Recently Issued Accounting Standards

Leases

In February 2016, the Financial Accounting Standard Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-02, *Leases (Topic 842)*. This guidance amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. It also makes targeted changes to lessor accounting, including a change to the treatment of initial direct leasing costs, which no longer considers fixed internal leasing salaries as capitalizable costs. The standard is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the alternative methods of adoption and the impact it will have on its consolidated financial statements and related disclosures.

3. Liquidity and Availability of Funds

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

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,970,829	\$ 2,492,171
Pledge receivable	-	50,000
Accounts receivable - other	<u>45,752</u>	<u>75,272</u>
 Total financial assets at year end	 <u><u>\$ 3,016,581</u></u>	 <u><u>\$ 2,617,443</u></u>
 Total financial assets available to meet general expenditures within the next 12 months	 <u><u>\$ 3,016,581</u></u>	 <u><u>\$ 2,617,443</u></u>

4. Escrow Deposits

The Organization holds escrow deposits on behalf of persons with outstanding mortgages receivable. The escrows are for purposes of repairs and maintenance. The escrow deposits are held in a commercial bank account. The outstanding escrow balances were \$363,384 and \$399,659 at June 30, 2022 and 2021, respectively.

5. Mortgage Notes Receivable

The Organization provides 100% financing on homes purchased over a 20 to 30 year period at no interest. Generally Accepted Accounting Principles require that contractual rights to receive money in the future be recorded at the present value of the consideration given in exchange.

The value of the house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments using an imputed interest rate. The difference between the face amount of the note and its present value is accounted for as a discount, recorded on the Statement of Financial Position reducing mortgage notes receivable, and amortized over the life of the note by the interest method. Present value is calculated using rates determined for the year the mortgage was executed. Rates used for the year ending June 30, 2022 and 2021, were 7.49% and 7.23%, respectively.

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June 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Mortgage notes receivable	\$ 5,921,077	\$ 6,032,043
Less: Unearned discount	<u>(2,903,583)</u>	<u>(3,213,529)</u>
	<u>\$ 3,017,494</u>	<u>\$ 2,818,514</u>

All notes are collateralized by a first mortgage lien on the real property sold. In the event of a default by the mortgagor, the property may be repossessed to satisfy any outstanding obligations. In addition, all mortgages are non-assumable without prior written approval of the Organization. Since all houses are collateralized by a first mortgage lien and the high demand for affordable housing in the area, the Organization has made no allowance for uncollectible mortgages.

\$797,166 of select mortgage receivables serve as collateral for a commercial bank line of credit. \$1,129,512 of select mortgage receivables held serve as security of an LLC notes payable to a commercial bank.

As of June 30, 2022 and 2021, the Organization had 39 and 60 delinquent loans, with approximate delinquent balances of \$157,000 and \$151,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2022 and 2021 is approximately \$2,832,000 and \$3,819,000, respectively.

During the year ending June 30, 2022 and 2021, loan and mortgage sales took place of:

	<u>2022</u>	<u>2021</u>
Principal	\$ -	\$ 3,418,811
Mortgage discount	-	<u>(1,989,439)</u>
Net	-	1,429,372
Sales price, net	<u>\$ -</u>	<u>\$ 2,421,895</u>
Gain	<u>\$ -</u>	<u>\$ 992,523</u>

The Organization is obligated to swap out any mortgages sold, if any become significantly in arrears. During the year ending June 30, 2022 and 2021, gains on foreclosures and swaps of collateral mortgages resulted in recognition of a \$0 and \$63,179 gain, respectively.

6. Construction Inventory

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

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

At June 30, 2022 and 2021, there were 4 and 0 completed but unsold homes as well as 1 and 4 homes in process, respectively. There were 1 and 1 repurchased homes at June 30, 2022 and 2021, respectively. The detail of the construction inventory is as follows:

	<u>2022</u>	<u>2021</u>
Land & land infrastructure	\$ 1,421,744	\$ 1,396,931
Construction in process	407,433	335,172
	<u>\$ 1,829,177</u>	<u>\$ 1,732,103</u>

7. Property and Equipment

Property and equipment consisted of:

	<u>2022</u>	<u>2021</u>
Land	\$ 155,198	\$ 155,198
Building & improvements	669,375	652,064
Equipment	156,748	156,748
	<u>981,321</u>	<u>964,010</u>
Less accumulated depreciation	<u>(319,789)</u>	<u>(296,301)</u>
	<u>\$ 661,532</u>	<u>\$ 667,709</u>

8. Deposits and Payments on Houses Awaiting Closing

As stated in Note 1, families must meet certain requirements before they can sign a mortgage on a house. If the house is completed before these requirements are met, then the family is allowed to rent the house while working to meet the requirements. Families receive a rent credit at the time the house is closed, at which time it is applied to reduce the mortgage. In addition, down payments of \$500 are collected on all houses and are applied to reduce the mortgage at closing.

At June 30, 2022 and 2021, the Organization had \$1,460 and \$1,050 down payment credits. There were no rent-applied credits.

9. Line of Credit

The Organization has a commercial bank line of credit in the amount of \$2,000,000, with interest at the LIBOR rate plus two and one-half percent, subject to a floor of 3.50% and a ceiling of 5.50%, currently 3.50%. As discussed in Note 5, the line of credit is secured by select mortgage notes receivable. The line of credit matured March 2022. The outstanding balance was \$0 at June 30, 2022 and 2021, respectively.

Beaches Habitat for Humanity, Inc.
(a non-profit organization)
Notes to the Consolidated Financial Statements
June 30, 2022 and 2021

10. Notes Payable

The Organization had the following notes payable at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Note payable under the SBA Paycheck Protection Plan, issued April 1, 2021, interest at 1.00%, payable in 5 payments over 5 years. Loan principal and accrued interest can be fully forgiven depending on use of funds as determined by the SBA. The loan was forgiven in year ending June 30, 2022.	\$ -	\$ 146,664
Commercial bank note, in conjunction with the City of Jacksonville (COJ), unsecured, due April 2025, interest at 3.99%. The COVID assistance loan requires maintaining 50% of pre-COVID workforce. Installment payments of \$1,934 per month, maturing January 2025, \$10,000 per year is forgiven. \$7,071 and \$10,000 was forgiven in years ending June 30, 2022 and 2021, respectively.	61,406	87,010
LLC secured note payable to a commercial bank, without interest. The note payments are the remittance of periodic collections of a 2017 structured sale of mortgages to the commercial bank. The mortgages are scheduled to pay out in April 2045. The LLC pledged the right, title, and interest to the mortgage loans to secure the note.	1,188,555	1,283,638
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$520, beginning July 2019 and maturing July 2024.	12,000	18,240
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$468 beginning July 2022 and maturing July 2026. \$15,461 drawn at June 2023.	15,461	10,887
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments beginning July 2017 and maturing July 2021.	-	1,948
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$1,101 beginning January 2016 and maturing January 2022.	-	12,138
Unsecured, non-interest bearing notes payable to affiliate, payable in 48 monthly principal payments of \$478 beginning January 2018, originally maturing December 2021, but extended for COVID-19 until June 2022.	-	4,394
	<u>1,277,422</u>	<u>1,564,919</u>
Less current portion	<u>(113,731)</u>	<u>(149,747)</u>
Long-term portion	<u>\$ 1,163,691</u>	<u>\$ 1,415,172</u>

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

2023	\$ 113,731
2024	114,708
2025	90,660
2026	77,307
2027	77,307
Thereafter	<u>803,709</u>
	<u>\$ 1,277,422</u>

11. Donations

Building materials, subcontract labor and land, which are donated to the Organization, are valued at their estimated fair value and recorded as contract costs. In-kind contributions totaled \$75,021 and \$88,523 for the years ended June 30, 2022 and 2021, respectively.

12. Concentrations of Credit Risk

Since the Organization's home sales are concentrated within one geographic location (Beaches Community of the Duval County, Florida area) to individuals who would otherwise not qualify for home mortgage financing, there is a significant concentration of credit risk associated with the Organization's mortgage notes receivable. In an effort to minimize this risk, it is the Organization's policy to require credit reports, employment verifications and police checks on all potential homeowners. Additional protection is provided by the recorded first mortgage lien on the real property during the period the mortgage is outstanding and the non-assumable nature of the mortgage without prior written approval of the Organization.

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

The Organization had commercial bank accounts at two commercial banks of \$3,068,805 at June 30, 2022, which are \$2,568,805 above the insured FDIC limit of \$250,000.

13. Affiliation

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

14. Separate Cash Accounts

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

Beaches Habitat for Humanity, Inc.
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Notes to the Consolidated Financial Statements
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15. Consolidating Entities Activity

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

	<u>2022</u>	<u>2021</u>
Assets		
Due from the Organization	\$ 61,746	\$ 85,621
Mortgage receivables held	<u>1,126,809</u>	<u>1,198,017</u>
Total assets	<u>\$ 1,188,555</u>	<u>\$ 1,283,638</u>
Liabilities		
Note payable to commercial bank	<u>\$ 1,188,555</u>	<u>\$ 1,283,638</u>

The \$61,746 Due from the Organization was eliminated in consolidation.

The LLC has no income and expense transactions.

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

16. In-kind Donations

The Organization may receive equipment, land, construction supplies, educational rental space, loan processing, and professional services without payment or compensation. Contribution of donated services that create or enhance nonfinancial assets or that require specialized skills, are provide by an individual possessing those skills, and would typically needed to be purchased when not provided by donation, are recorded. The value of such services is ascertainable and meets the requirements of FASB ASC 958-605-25-16, it is reflected in the accompanying consolidated financial statements as revenue and expenses. Materials and other noncash donations are recorded at cost or estimated fair value determined at the date of donation.

A substantial number of volunteers have made significant contributions of their time to the Organization, which do not meet the above criteria. The value of this contributed time is not reflected in these consolidated financial statements since there is no objective measurement or valuation of these services.

Total in-kind donations included in the accompanying consolidated financial statements in accordance with ASC 958-605-25-16, were as follows:

	<u>2022</u>	<u>2021</u>
Loan processing	\$ 53,004	\$ 53,004
Educational rental space	15,000	15,000
Construction supplies	<u>7,017</u>	<u>20,519</u>
	<u>\$ 75,021</u>	<u>\$ 88,523</u>

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

To the Board of Directors
Beaches Habitat for Humanity, Inc.
Atlantic Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Beaches Habitat for Humanity, Inc. (a non-profit organization), which comprise the consolidated financial position as of June 30, 2022, and the related consolidated statements of activities, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 20, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Beaches Habitat for Humanity, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of Beaches Habitat for Humanity, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Beaches Habitat for Humanity, Inc.’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beaches Habitat for Humanity, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material affect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ralston ; Company

December 20, 2022