Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Jacksonville, Florida

Financial Statements
June 30, 2018 and 2017

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Index to Financial Statements

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 AUDITOR'S 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, 2018 and 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditor's 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, 2018 and 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018, 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

September 24, 2018

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Statements of Financial Position
June 30, 2018 and 2017

ASSETS

	2018	2017
Cash and cash equivalents	$ 2,525,824	$ 3,021,236
Restricted cash - NMTC	302,045	-
Investment in NMTC	977,842	-
Pledges receivable	218,019	84,133
Grants receivable	-	866,166
Mortgage notes receivable - net of unearned discount	14,735,919	13,633,722
Construction inventory	2,098,348	2,010,220
Prepaid and other assets	95,522	43,524
Property and equipment - net of accumulated depreciation	749,613	752,965
Land held for future use	1,446,279	1,736,034
Total assets	$ 23,149,411	$ 22,148,000

LIABILITIES AND NET ASSETS

	2018	2017
Accounts payable	$ 172,710	$ 141,991
Accrued expenses	89,828	114,171
Mortgage purchase liability	2,559	95,901
Line of credit	2,225,000	2,225,000
Notes payable	353,299	602,888
Loan payable - NMTC	1,371,524	-
Deposits and payments on houses awaiting closing	33,480	21,332
Total liabilities	4,248,400	3,201,283
Net assets:		
Unrestricted	18,470,799	17,846,717
Temporarily restricted	430,212	1,100,000
Total net assets	18,901,011	18,946,717
Total liabilities and net assets	$ 23,149,411	$ 22,148,000

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, 2018 and 2017

	2018	2017
Changes in unrestricted net assets:		
Revenues		
Program service revenue	$ 5,836,938	$ 4,587,531
Contributions and sponsorships	3,703,025	1,917,571
Grants	175,563	985,466
Other income	52,540	24,391
Total revenues	9,768,066	7,514,959
Expenses		
Program services	8,304,588	6,794,209
Management and general	511,226	506,783
Fundraising	328,170	391,013
Total expenses	9,143,984	7,692,005
Change in unrestricted net assets	624,082	(177,046)
Changes in temporarily restricted net assets:		
Contribution	650,000	1,100,000
Release from restriction	(1,319,788)	-
Change in temporarily restricted net assets	(669,788)	1,100,000
Increase (decrease) in net assets:	(45,706)	922,954
Net assets - beginning of year	18,946,717	18,023,763
Net assets - end of year	$ 18,901,011	$ 18,946,717

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, 2018

	Program Services	Supporting Services Management and General	Fund Raising	2018 Total
Salaries	$ 1,386,801	$ 248,239	$ 140,633	$ 1,775,673
Employee benefits	138,954	25,871	12,980	177,805
Payroll taxes	125,471	20,489	12,382	158,342
Total salaries and related expenses	1,651,226	294,599	165,995	2,111,820
Construction and supplies	4,185,101	419	-	4,185,520
Mortgage discounts, net of amortization	946,887	-	-	946,887
Rent	645,536	6,354	3,210	655,100
Office and premises	161,855	28,861	31,460	222,176
Professional fees	155,346	48,073	16,898	220,317
Insurance	150,187	33,037	110	183,334
Maintenance	123,349	-	-	123,349
Interest	105,881	-	-	105,881
Tithe	-	-	57,794	57,794
Depreciation	-	54,863	-	54,863
Vehicle expenses	53,470	156	81	53,707
Advertising	11,414	477	37,307	49,198
Special events	16,551	19,267	10,777	46,595
Telephone and communications	20,201	3,981	1,992	26,174
Warranty	2,579	-	-	2,579
Other	75,005	21,139	2,546	98,690
Total expenses	$ 8,304,588	$ 511,226	$ 328,170	$ 9,143,984

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

	Program Services	Supporting Services Management and General	Fund Raising	2017 Total
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 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 of amortization	146,426	-	-	146,426
Tithe and donations	-	-	133,373	133,373
Interest	90,190	-	-	90,190
Vehicle expenses	79,359	231	120	79,710
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 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	$ 6,794,209	$ 506,783	$ 391,013	$ 7,692,005

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets	$ (45,706)	$ 922,954
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	54,863	39,485
Discounts on mortgages	946,887	146,426
Gain on sale of assets	(16,154)	-
Changes in assets and liabilities		
Pledges receivable	(133,886)	251,072
Grants receivable	866,166	(866,166)
Construction inventory	(88,128)	553,450
Prepaid expenses and other assets	(51,998)	22,517
Accounts payable	30,720	(128,739)
Accrued expenses	(24,343)	49,068
Mortgage purchase liability	(93,341)	(262,374)
Deposits and payments on houses awaiting closing	12,148	4,169
Net cash provided by operating activities	1,457,228	731,862
Cash flows from investing activities		
Purchase of NMTC investment	(977,842)	-
Increase in restricted cash	(302,045)	-
Changes in mortgage notes receivable - net of discounts	(2,049,084)	(1,398,825)
Proceeds from sale of property and equipment	19,100	-
Purchase of property and equipment	(54,458)	(105,536)
Transfer of land held for future use, net of purchase	289,754	(16,665)
Net cash used by investing activities	(3,074,575)	(1,521,026)
Cash flows from financing activities		
Proceeds from long-term debt	1,392,774	58,913
Net change on line of credit	-	200,000
Repayment of long-term debt	(270,839)	(268,209)
Net cash provided (used) by financing activities	1,121,935	(9,296)
Net decrease in cash and cash equivalents	(495,412)	(798,460)
Cash and cash equivalents, beginning of year	3,021,236	3,819,696
Cash and cash equivalents, end of year	$ 2,525,824	$ 3,021,236
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 105,881	$ 90,190

See notes to the financial statements.

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 two stores 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.

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.

Restricted Cash
New Market Tax Credit restricted cash are funds set aside for new construction in process and operating expenses of the NMTC. The balance at June 30, 2018 was $302,445.

Investment in New Market Tax Credits
The investment is accounted for using the equity method and the carrying amount of the investment is increased for the Organization's proportionate share of the joint venture's earnings and decreased for the Organization's proportionate share of the joint venture's losses and distributions.

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.

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.

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, 2018 and 2017.

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, 2018. The Organization is no longer subject to U.S. Federal income tax examinations by the tax authorities for years before June 30, 2015.

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

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

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

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

Date of Managements' Review
Subsequent events have been evaluated through September 24, 2018, the date these financial statements were available to be issued.

Accounting Pronouncements Issued But Not Yet Adopted

Leases
In February 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)*. This guidance amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. It also makes targeted changes to lessor accounting, including a change to the treatment of initial direct leasing costs, which no longer considers fixed internal leasing salaries as capitalizable costs. The standard is effective beginning January 2019. The Organization is currently evaluating the alternative methods of adoption and the impact it will have on its financial statements and related disclosures.

Financial Statement Presentation of Not-for-Profit Entities
In August of 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. These amendments will have an impact on the Organization's financial statement presentation. These amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of this ASU on its financial statements and related disclosures.

3. Investment in New Markets Tax Credit

In November 2017, the Organization invested along with 10 other Habitat affiliates, in a joint venture (HFHI NMTC Leverage Lender 2016-1, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside vendors, who will receive new market tax credits to be applied against their federal tax liability. The Organization invested a combination of cash and construction in progress totaling $977,841 for a 4.53% ownership stake and securing a loan in the amount of $1,450,557 payable to HFHI NMTC SUB-CDEHHS. The result was the Organization receiving $845,172 to be used solely for the purpose of constructing and selling qualified housing projects to low-income residents.

The balance of the investment in HFHI NMTC Leverage Lender 2016-1, LLC is as follows:

	2018
Balance, beginning of year	$ -
Invested	977,841
Share of income	6,491
Distributions	(6,490)
Balance, end of year	$ 977,842

The NMTC has restricted cash in the amount received from loan proceeds, less the construction in process transferred. Restricted cash is to be used for new construction in process and operating expenses of the NMTC. The balance of restricted cash at June 30, 2018 was $302,045.

4. 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, 2018 and 2017.

5. 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, 2018 and 2017 was 7.47% and 7.48% respectively.

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

	2018	2017
Mortgage notes receivable	$ 29,302,433	$ 27,421,245
Less: Unamortized discount	(14,566,514)	(13,787,523)
	$ 14,735,919	$ 13,633,722

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, 2018 and 2017.

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

As of June 30, 2018 and 2017, the Organization had 156 and 206 delinquent loans, respectively, with approximate delinquent amounts of $386,000 and $353,000 respectively. The total principal balance for the delinquent mortgages as of June 30, 2018 and 2017 is approximately $5,716,000 and $9,022,000, respectively.

Included in mortgage notes receivable at the end of June 30, 2018 and 2017 are 4 mortgages totaling $160,763 and $169,299 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 $7,775,683 are pledged as collateral on the line of credit at June 30, 2018.

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

At June 30, 2018 and 2017, there were 17 and 17 completed but unclosed houses as well as 17 and 10 homes in process, respectively. There were 2 and 3 repurchased homes at June 30, 2018 and 2017, respectively. The detail of the construction inventory is as follows:

	2018	2017
Construction supplies	$ 65,350	$ 47,788
Construction in progress	1,871,199	1,733,324
Repurchased homes	161,799	229,108
	$ 2,098,348	$ 2,010,220

7. Property and Equipment

Major classes of property and equipment are as follows:

	2018	2017
Land and buildings	$ 1,084,951	$ 1,075,751
Office equipment	260,138	251,462
Vehicles	186,949	182,005
Construction equipment	114,245	115,257
	1,646,282	1,624,474
Less accumulated depreciation	(896,669)	(871,509)
	$ 749,613	$ 752,965

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. 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.

9. Line of Credit

The Organization has a line of credit with TIAA Bank, 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 4.48% at June 30, 2018, with interest payable monthly. The line of credit is collateralized by mortgage receivables and inventories of the Organization. At June 30, 2018 and 2017, the Organization had drawn $2,225,000 and $2,225,000, respectively, on the line of credit.

10. Notes Payable

The Organization had the following notes payable at June 30, 2018 and 2017:

	2018	2017
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $442 beginning January 2020 and maturing December 2023.	$ 21,250	$ -
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	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	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	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.	24,630	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.	7,649	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.	5,470	6,250
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.	855	1,695
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.	5,095	10,146

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.	30,390	50,634
Unsecured with $37,000 of available funds, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $770 beginning January 2017 and maturing December 2020.	18,069	32,380
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.	11,270	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.	200,000	400,000
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $138 beginning January 2014 and maturing December 2017.	-	871
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
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
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

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
	348,228	602,888
Less current portion	258,906	269,033
Long-term portion	$ 89,322	$ 333,855

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

2019	$ 258,906
2020	45,940
2021	23,308
2022	15,574
2023	6,884
Thereafter	2,687
	$ 353,299

11. NMTC Loan Payable

The Organization has a $1,371,524 loan payable to HFHI NMTC SUD-CDE II, LLC as part of the New Market Tax Credit financing. The loan is a 30-year loan commencing November 2017. Interest is charged at a fixed annual rate of .674252% and paid semiannually. The note is interest only for 7 years. Principal payments are scheduled to begin May 2025. The loan has a put option feature, defined in an option agreement that is expected to be exercised in 2025, effectively removing the liability. The loan is secured by substantially all the assets acquired by the Organization from the proceeds.

Loan costs incurred with the loan were $80,836. Accumulated amortization at June 30, 2018 was $1,803.

12. Lease Commitments

The Organization leases the space for one Re-Store through June 2021 under an operating lease with monthly payments of $17,474, 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:

2019	$	440,156
2020		431,262
2021		422,387
2022		222,054
2023		222,054
Thereafter		204,872
	$	1,942,785

13. 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 and employment verifications 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, 2018, the uninsured balance is $2,564,976. The Organization believes it is not exposed to any significant credit risk on its cash balances.

14. Affiliation

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

15. 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, 2018 and 2017 were $31,350 and $24,697, respectively.

16. Separate Cash Accounts

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

17. In-kind Donations

In-kind donations are valued at estimated fair value. Total in-kind donations were $261,554 and $166,048 for the years ended June 30, 2018 and 2017, respectively. Donations were primarily land, construction supplies and related professional services.

18. 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 began June 30, 2017 and the remaining temporarily restricted portion at June 30, 2018 was $187,224.

Also reflected in temporarily restricted net assets is a June 30, 2018 $650,000 contribution designated for specific natural disaster construction and related projects. The remaining temporarily restricted portion at June 30, 2018 was $242,988.

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

To the Board of Directors
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 statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ralston & Company, PA

September 24, 2018