

**PENSACOLA HABITAT FOR HUMANITY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2023**

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
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**JUNE 30, 2023**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Pensacola Habitat for Humanity, Inc.  
Escambia County, Florida

### **Opinion**

We have audited the accompanying financial statements of Pensacola Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pensacola Habitat for Humanity, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pensacola Habitat for Humanity, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Pensacola 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 Pensacola 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 a report on our consideration of Pensacola 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 solely 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 the effectiveness of Pensacola Habitat for Humanity, Inc.'s 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 Pensacola Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

Pensacola, Florida  
December 4, 2023

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2023**

**ASSETS**

|                                      |                             |
|--------------------------------------|-----------------------------|
| Current assets:                      |                             |
| Cash and cash equivalents            | \$ 2,436,316                |
| Certificates of deposit              | 250,000                     |
| Homeowner escrow cash account        | 610,938                     |
| Notes receivable, due in one year    | 3,369,919                   |
| Other receivables                    | 1,595,641                   |
| Inventory - ReStore                  | 163,401                     |
| Construction in progress             | 5,781,069                   |
| Completed houses                     | 3,990,624                   |
| Total current assets                 | <u>18,197,908</u>           |
| Property and equipment:              |                             |
| Property and equipment               | 3,095,001                   |
| Less: accumulated depreciation       | <u>(1,460,224)</u>          |
| Net property and equipment           | <u>1,634,777</u>            |
| Other assets:                        |                             |
| Right-to-use asset                   | 414,627                     |
| Certificates of deposit - restricted | 24,561                      |
| Notes receivable, due after one year | 25,646,339                  |
| Allowance for uncollectible notes    | <u>(486,618)</u>            |
| Total other assets                   | <u>25,598,909</u>           |
| Total assets                         | <u><u>\$ 45,431,594</u></u> |

**LIABILITIES AND NET ASSETS**

|   |                             |
|---|-----------------------------|
| Current liabilities:                    |                             |
| Accounts payable                        | \$ 270,795                  |
| Escrow deposits                         | 643,793                     |
| Homeowner downpayments                  | 78,719                      |
| Accrued expenses                        | 313,978                     |
| Current portion of lease liability      | 141,102                     |
| Notes payable, due in one year          | 46,266                      |
| Total current liabilities               | <u>1,494,653</u>            |
| Long-term liabilities:                  |                             |
| Notes payable, due after one year       | 1,099,181                   |
| Lease liability, net of current portion | <u>371,869</u>              |
| Total long-term liabilities             | <u>1,471,050</u>            |
| Total liabilities                       | <u>2,965,703</u>            |
| Net assets                              |                             |
| Without donor restrictions              | 41,831,580                  |
| With donor restrictions                 | <u>634,311</u>              |
| Total net assets                        | <u>42,465,891</u>           |
| Total liabilities and net assets        | <u><u>\$ 45,431,594</u></u> |

See notes to the financial statements.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

|  | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>Total</u>         |
|--|---|--|----------------------|
| Revenues, gains, and other support         |   |  |                      |
| Gifts and donations                        | \$ 266,862                                | \$ -                                   | \$ 266,862           |
| Gifts and donations, in-kind               | 9,222                                     | 68,061                                 | 77,283               |
| Home sales, net                            | 2,331,497                                 | -                                      | 2,331,497            |
| Mortgage discounts amortization            | 2,703,995                                 | -                                      | 2,703,995            |
| Discounts on notes payable acquired        | -   | 711                                    | 711                  |
| Late fee revenue                           | 65,454                                    | -                                      | 65,454               |
| Interest revenue                           | 203,067                                   | -                                      | 203,067              |
| ReStore revenue                            | 1,347,077                                 | -                                      | 1,347,077            |
| Gain on sale of assets                     | 1,913,081                                 | -                                      | 1,913,081            |
| Special events (net of \$118,035 expenses) | 173,231                                   | -                                      | 173,231              |
| Community tax credit donations             | -   | 1,107,201                              | 1,107,201            |
| NeighborWorks@America grants               | 513,450                                   | -                                      | 513,450              |
| Other grants                               | 34,793                                    | 60,774                                 | 95,567               |
| Other income                               | 87,841                                    | -                                      | 87,841               |
| Gain on dissolution of joint venture       | 669,147                                   | -                                      | 669,147              |
| Net assets released from restrictions      | 1,123,118                                 | (1,123,118)                            | -                    |
| Total revenue, gains, and other support    | <u>11,441,835</u>                         | <u>113,629</u>                         | <u>11,555,464</u>    |
| Expenses                                   |   |  |                      |
| Program expenses                           | 7,970,265                                 | -                                      | 7,970,265            |
| General and administrative expenses        | 1,879,977                                 | -                                      | 1,879,977            |
| Fundraising expenses                       | 318,284                                   | -                                      | 318,284              |
| Total expenses                             | <u>10,168,526</u>                         | <u>-</u>                               | <u>10,168,526</u>    |
| Change in net assets                       | 1,273,309                                 | 113,629                                | 1,386,938            |
| Net assets, beginning of year              | <u>40,558,271</u>                         | <u>520,682</u>                         | <u>41,078,953</u>    |
| Net assets, end of year                    | <u>\$ 41,831,580</u>                      | <u>\$ 634,311</u>                      | <u>\$ 42,465,891</u> |

See notes to the financial statements.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

|   | <b>Construction<br/>Program<br/>Expense</b> | <b>ReStore<br/>Program<br/>Expense</b> | <b>Total<br/>Program<br/>Expenses</b> | <b>General<br/>and<br/>Administrative</b> | <b>Fundraising<br/>Expenses</b> | <b>Total<br/>Expenses</b> |
|---|---|--|---------------------------------------|---|---------------------------------|---------------------------|
| Accounting and legal fees                   | \$ 35,756                                   | \$ -                                   | \$ 35,756                             | \$ 72,376                                 | \$ -                            | \$ 108,132                |
| Advertising                                 | 1,366                                       | 31,170                                 | 32,536                                | 46,664                                    | 10,524                          | 89,724                    |
| Amortization of loan obligation costs       | -   | -                                      | -                                     | 100,892                                   | -                               | 100,892                   |
| Bank and credit card fees                   | -   | 30,329                                 | 30,329                                | -   | -                               | 30,329                    |
| Conference and meetings                     | 21,760                                      | -                                      | 21,760                                | 21,578                                    | -                               | 43,338                    |
| Costs of construction and sales             | 7,896,895                                   | 174,194                                | 8,071,089                             | -   | -                               | 8,071,089                 |
| Depreciation                                | -   | 15,020                                 | 15,020                                | 118,394                                   | -                               | 133,414                   |
| Information technology                      | -   | 8,156                                  | 8,156                                 | 84,482                                    | -                               | 92,638                    |
| Insurance                                   | 41,321                                      | 8,278                                  | 49,599                                | 106,029                                   | -                               | 155,628                   |
| Interest expense                            | 15,251                                      | -                                      | 15,251                                | -   | -                               | 15,251                    |
| Miscellaneous expenses                      | -   | -                                      | -                                     | 48,682                                    | -                               | 48,682                    |
| Office expense                              | 110,356                                     | 12,889                                 | 123,245                               | 190,706                                   | 40,088                          | 354,039                   |
| Employee benefits                           | 170,602                                     | 54,948                                 | 225,550                               | 92,103                                    | 26,711                          | 344,364                   |
| Payroll taxes                               | 168,723                                     | 35,323                                 | 204,046                               | 72,038                                    | 22,605                          | 298,689                   |
| Pension plan contributions                  | 16,162                                      | 1,957                                  | 18,119                                | 15,673                                    | 2,581                           | 36,373                    |
| Rents                                       | -   | 164,527                                | 164,527                               | -   | -                               | 164,527                   |
| Repairs and maintenance                     | 361,288                                     | 18,826                                 | 380,114                               | 103,719                                   | -                               | 483,833                   |
| Salaries and wages                          | 893,791                                     | 367,800                                | 1,261,591                             | 749,125                                   | 215,775                         | 2,226,491                 |
| Taxes and licenses                          | -   | 86                                     | 86                                    | 1,761                                     | -                               | 1,847                     |
| Tithe to Habitat for Humanity International | 17,000                                      | -                                      | 17,000                                | -   | -                               | 17,000                    |
| Travel                                      | 38,702                                      | 13,556                                 | 52,258                                | 22,753                                    | -                               | 75,011                    |
| Utilities                                   | -   | 35,540                                 | 35,540                                | 33,002                                    | -                               | 68,542                    |
| Overhead allocation to cost of homes built  | (2,791,307)                                 | -                                      | (2,791,307)                           | -   | -                               | (2,791,307)               |
| <b>Totals</b>                               | <b>\$ 6,997,666</b>                         | <b>\$ 972,599</b>                      | <b>\$ 7,970,265</b>                   | <b>\$ 1,879,977</b>                       | <b>\$ 318,284</b>               | <b>\$ 10,168,526</b>      |

See notes to the financial statements.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

|   |                            |
|---|----------------------------|
| <b>Cash flows from operating activities:</b>  |                            |
| Change in net assets:   | \$ 1,386,938               |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                            |
| Noncash items:  |                            |
| Amortization of mortgage discounts  | (2,703,995)                |
| Bad debt expense  | 141,264                    |
| Discounts on notes payable acquired   | (711)                      |
| Gain on sales of homes  | (1,913,081)                |
| Amortization of loan obligation costs   | 100,892                    |
| Depreciation  | 133,414                    |
| Amortization of discount on note payable  | 10,727                     |
| Gain on dissolution of joint venture  | (669,147)                  |
| Overhead allocation to cost of homes built  | 2,791,307                  |
| Cost of homes transferred   | 7,896,895                  |
| Mortgages, net of discounts   | (2,472,761)                |
| Noncash lease expense   | 98,344                     |
| Changes in assets and liabilities:  |                            |
| Homeowner escrow cash   | 141,618                    |
| Other receivables   | (492,749)                  |
| Inventory - ReStore   | (39,037)                   |
| Construction in progress  | (10,012,979)               |
| Accounts payable  | 189,473                    |
| Escrow deposits   | (380,715)                  |
| Homeowner downpayments  | (10,607)                   |
| Accrued expenses  | 115,665                    |
| Deferred revenue and rents  | (100,233)                  |
| Net cash used in operating activities   | <u>(5,789,478)</u>         |
| <b>Cash flows from investing activities:</b>  |                            |
| Mortgage payments received  | 5,009,684                  |
| Purchase of certificates of deposit   | (250,020)                  |
| Purchases of fixed assets   | (97,870)                   |
| Net cash provided by investing activities   | <u>4,661,794</u>           |
| <b>Cash flows from financing activities:</b>  |                            |
| Borrowings on notes payable   | 1,003,681                  |
| Repayments of notes payable   | (46,146)                   |
| Net cash provided by financing activities   | <u>957,535</u>             |
| <b>Net increase (decrease) in cash</b>  | <u>(170,149)</u>           |
| Cash, cash equivalents, and restricted cash at July 1, 2022                             | <u>2,606,465</u>           |
| Cash, cash equivalents, and restricted cash at June 30, 2023                            | <u><u>\$ 2,436,316</u></u> |

See notes to the financial statements.



**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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## **1. DESCRIPTION OF ORGANIZATION**

Pensacola Habitat for Humanity, Inc. (the “Organization”) was incorporated in 1982. As an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), the Organization is a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. The Organization uses volunteer labor, including the help of future homeowners, and donated funds and materials to build or rehabilitate houses, and sells them to low-income families through noninterest bearing mortgage loans. Although Habitat International assists with information resources, training, publications and in other ways, the Organization is primarily and directly responsible for its own operations within Escambia County, Florida. The Organization also receives revenue from the operation of a thrift store (ReStore) that sells household goods, building materials, and other items donated by the general public.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Financial Statement Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”) which requires that the Organization report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets therein are classified as follows:

*Net Assets Without Donor Restrictions* – Net assets available for general use and are not subject to donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met either by passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

### **Recently Adopted Accounting Pronouncement**

Effective July 1, 2022, the Organization adopted the Financial Account Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*, which amends both lessor and lessee accounting with the most significant change being the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities on the balance sheet for operating leases. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification.

The Organization adopted Topic 842 using the transition alternative provided by Accounting Standards Update (ASU) 2018-11, *Leases (Topic 842) – Targeted Improvements*. Under this method, comparative prior period balances have not been remeasured using the new lease guidance.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**2. SIGNIFICANT ACCOUNTING POLICIES –CONTINUED**

**Revenue Recognition**

The Organization recognizes certain contributions, grants and other donor support in accordance with ASC Topic 958. Under this guidance, contributions and grants received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Conditional grants received are reported as deferred revenue until all stipulated conditions are fulfilled. Property and equipment donated without stipulations are reported as contributions without donor restrictions.

Contributed land and equipment are recorded as without donor restrictions unless the donor explicitly states how such assets should be used. Gifts of cash or other assets that must be used to acquire long lived assets are reported as net assets with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired long lived asset is placed into service. The Organization records gifts of land and equipment at fair value at the date of donation.

Contributions of merchandise to the ReStore are recognized as revenue at the time merchandise is transferred to the customer. Sales returns have not been significant.

In-kind contributions (primarily land for development and construction materials) are recorded based on their estimated acquisition value on the date of receipt. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services.

Grant funds are earned and reported as revenue when the Organization has incurred expenses in compliance with specific restrictions of the grant agreement. Grant funds that are restricted for use in home construction are reflected as revenue with donor restrictions since these funds are generally received but not spent during the same year.

The Organization recognizes revenue from home sales, ReStore sales and other exchange transactions in accordance with the ASC Topic 606, *Revenue from Contracts with Customers*. In accordance with this guidance, revenue and related costs of revenue are recognized where there is persuasive evidence that an arrangement exists, transfer of ownership has occurred, the price to the buyer is fixed or determinable, and the collectability of the related receivable is reasonably assured. Regarding revenues derived from the sale of completed homes, customers can use the Organization to finance the purchase of the home or obtain third-party financing. When third-party financing is obtained, the Organization is paid in full and revenue is recognized at the point in time when the closings occur, and ownership is fully transferred to the customer. Home sales financed by the Organization are recorded at the gross mortgage amount, plus the down payment received. Revenue is recognized at the point in time when closing occurs. Noninterest-bearing mortgages have been discounted based on the prevailing market rates for low-income housing at the inception of the mortgages.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**2. SIGNIFICANT ACCOUNTING POLICIES –CONTINUED**

**Revenue Recognition – Continued**

Home sales are presented net of this discount, which totaled \$3,443,082 for the year ended June 30, 2023. Revenues and cash flows are affected by various economic factors. Internally financed properties require monthly mortgage payments, with payment due ten days after month end. In the event of default, the Organization retains the right of foreclosure of the mortgaged property.

ReStore revenues are recognized in full upon transfer of ownership, which is at the time of sale.

**Cash and Cash Equivalents**

Cash includes short-term, interest bearing, highly liquid investments with original maturities of three months or less.

**Notes Receivable**

The Organization is a charity engaged in providing homeownership opportunities to low-income families living or working in Escambia County and Santa Rosa County, Florida. Upon completion of construction, the home is conveyed to a selected family at fair market value and financing determined by the buyer's affordability. The Organization takes back a noninterest-bearing note for the purchase price and the note is secured by a first mortgage on the home. Affordability subsidies, if required, are secured by a second promissory note. First promissory notes are no less than the total development and construction cost of the home. Fair market value is determined by an independent appraisal. The Organization has established criteria as to whether the second mortgage will be forgiven or paid off; however, the timing of these transactions is never known.

Due to the uncertainty of collection, the Organization has fully reserved for the second promissory note and recognizes them as revenue when the second promissory note is satisfied and the funds are received. The noninterest-bearing note receivable is then discounted in accordance with Internal Revenue Code Section 1288. The discounted amount, which represents the underlying mortgage receivable, is recorded at the original transfer price less the calculated discount. The Organization utilizes the rates determined by the annual simple average, calculated by taking the average rate for 12 months, published by the Internal Revenue Service (IRS) under the Index of Applicable Federal Rates (AFR) Rulings for Low-Income Housing Tax Credits. The mortgages have an original maturity of 20 to 30 years and arise in connection with the Organization's homebuilding initiatives in Escambia and Santa Rosa County. The mortgages are secured by underlying real estate that is located primarily in Escambia County and Santa Rosa County.

The Organization has established an estimate of uncollectable mortgages based on historical information. The allowance for uncollectable notes has been calculated on an estimated foreclosure rate of 1.2%. Bad debt expense for the year ended June 30, 2023, was \$141,264.

**Inventory**

Inventory consists of donated building supplies and other home improvement items to be sold at the Organization's ReStore. Purchased inventory is valued as the lower of cost or market. Donated inventory is not recorded on the statement of financial position as its value is deemed unknown until the item is sold at ReStore.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Construction in Progress**

Property held for development is recorded on the cost method. Costs associated with the acquisition, development and construction including property taxes, interest, insurance, and associated general and administrative costs are capitalized as cost of the property. Amounts capitalized are recognized as expenses when the property is transferred to the homeowner.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized during the fiscal year.

**Property and Equipment**

Property and equipment are recorded at cost or at fair market value if donated. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Depreciation expense is calculated using the straight-line method.

**Leases**

The Organization recognizes leases in accordance with FASB ASC Topic 842, *Leases*, and the related amendments. Leases are classified as either financing or operating, and a ROU asset and liability are established for leases with an initial term greater than 12 months. Leases with an initial term of 12 months or less, and not expected to renew beyond 12 months, are not recorded on the statement of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term, as adjusted for prepayments, incentives and initial direct costs. The Organization has elected the practical expedient available to private companies of using a risk-free rate as the discount rate for measuring lease liabilities. Some of the Organization's leases include options to extend the lease term, which is included in measuring the lease when it is reasonably certain that the Organization will exercise that option. The depreciable lives of assets are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Financing lease ROU assets are included in property and equipment on the statement of financial position. Amortization expense on assets acquired under financing leases is included in other overhead on the accompanying statement of activities. Operating lease expense is included in program expenses on the statement of activities.

**Functional Allocation of Expenses**

The costs of program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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## **2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

### **Functional Allocation of Expenses – Continued**

Certain costs have been allocated between program and supporting services. The expenses include compensation and benefits, which are allocated based on estimates of time and effort. Other expenses are classified based on specific identification.

### **Program Services**

Program services include construction, ReStore operations, family support and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner.

### **Income Taxes**

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International. Accordingly, no provision for income taxes has been made in the accompanying financial statements. As of June 30, 2023, the Organization had no uncertain tax positions or interest or penalties that qualify for either recognition or disclosure in the financial statements.

### **Date of Management Review**

The Organization has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2023, financial statements through December 4, 2023, the date the financial statements were available to be issued.

## **3. HOMEOWNER ESCROW CASH**

In November 2022, the Organization transferred servicing of the mortgage portfolio to Covey Financial (Covey), San Antonio, TX. Covey is responsible for collection of mortgage payments and escrow items, including the payment on behalf of the customer for insurance and property taxes. As such, the Organization turned over all escrow proceeds being held by the Organization to Covey for management. Homeowner escrow funds to cover insurance claims that are related to a dual signature insurance claim were retained. Those funds are held in a separate cash account that is not available for general operations. Homeowner escrow cash totaled \$610,938 as of June 30, 2023. The corresponding liability of \$643,793 is shown in the current liabilities section of the statement of financial position. The difference is due to the timing of transfers between the operating and escrow accounts at year-end. All escrow accounts are administered in accordance with federal RESPA standards.

## **4. NOTES RECEIVABLE**

Notes receivable are required by US GAAP to be shown at the net present value of the future stream of payments to reflect the time value of money. Habitat International directs that no interest is charged to homeowners on notes for houses.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**4. NOTES RECEIVABLE – CONTINUED**

To recognize this distinction between the requirements of Habitat International and the requirements of US GAAP, the Organization records a discount on the note receivable when the home is sold, so that the amount of the note receivable for the home shown on the financial statements reflects the present value of the stream of payments to be received. The note is discounted according to discount rates determined by Habitat International for each year. Interest rates range between 6% and 8.78%. Once a note is recorded, it keeps its same interest rate throughout its life, the same as any fixed rate commercial note.

As the payments are received, the discount is amortized to recognize the imputed interest portion of each payment. The amortization of the discount is shown as mortgage discounts amortization revenue on the statement of activities.

The Organization is currently exploring a variety of mortgage products in partnership with banks and other funding sources. In future years, these products may result in a lower note discount as some of these loans will be originated outside of the Organization.

As of June 30, 2023, notes receivable secured by real estate, due on various dates, with no stated interest, consisted of:

|   |                             |
|---|-----------------------------|
| Notes receivable, before imputing interest                  | \$ 48,720,947               |
| Discounts on noninterest-bearing notes for imputed interest | <u>(19,704,689)</u>         |
| Present value of future cash flows                          | <u><u>\$ 29,016,258</u></u> |

The following are maturities of long-term notes receivable, as discounted:

|                                      |                             |
|--------------------------------------|-----------------------------|
| Year ending June 30, 2024            | \$ 3,369,919                |
| Year ending June 30, 2025            | 3,100,345                   |
| Year ending June 30, 2026            | 2,852,226                   |
| Year ending June 30, 2027            | 2,608,430                   |
| Year ending June 30, 2028 and beyond | <u>17,085,338</u>           |
|                                      | <u><u>\$ 29,016,258</u></u> |

The amount of loans foreclosed during the year was \$300,789. As a result of the foreclosed loans, mortgage discount revenue of \$122,933 was recognized and is included in mortgage discounts amortization revenue.

The Organization completed a sale of eight mortgages of \$1,002,154 to ServisFirst Bank on June 29, 2023. These mortgages were sold at face value (par) of the unpaid principal balances. As a result of the sold loans, mortgage discount revenue of \$414,034 was recognized and is included in mortgage discounts amortization revenue.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**5. OTHER FINANCING METHODS**

Homes sold to eligible buyers located in rural areas as determined by the United States Department of Agriculture (USDA) are eligible to be financed through the USDA Direct Loan Program. These loans at below market interest rates are an approved, affordable financing mechanism from Habitat for Humanity International. The Organization closed on four of those loans to buyers during the fiscal year. In addition, the Organization helped buyers apply for and obtain \$155,000 in down payment assistance through Santa Rosa County's SHIP program and \$225,000 through Florida Housing Finance Corporation's HOP program.

**6. EMPLOYEE RETENTION CREDIT**

The Organization applied for the Employee Retention Credit (ERC) available through the federal government CARES Act. The ERC allows organizations to apply for and receive a credit of federal unemployment payments up to \$7,000 per quarter/per employee in quarters in which the organization experienced losses during the COVID pandemic. The organization qualified and applied for the credit through the PEO that was processing the payroll at the time of the quarters in which they qualified. Quarter 1 2021 refund requested is \$243,248 and Quarter 2 2021 requested is \$224,070. As of June 30, 2023, the Organization has not received the credits, which are shown in other receivables on the statement of financial position and as a reduction of salaries expense on the statement of functional expenses. In September 2023, the IRS announced a moratorium on processing new claims through at least December 31, 2023, due to increased fraud concerns. The moratorium will allow the IRS to perform stricter compliance reviews for ERC claims before disbursing refunds to taxpayers. As of the date of this report, the Organization has not received a refund and cannot reasonably estimate when it will receive any or all of the remaining refunds.

**7. INVESTMENT IN JOINT VENTURE**

Pensacola Habitat invested, along with 12 other Habitat International affiliates, in a joint venture (HFHI NMTC Leverage Lender 2013-1, LLC) with 9.35% ownership to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability.

As a result, the Organization has invested \$1,443,681 and was able to secure a 30-year loan in the amount of \$2,112,834, payable to a community development entity (HFHI NMTC Leverage Lender 2013-1, LLC). The loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

The loan included a put option that enabled the leverage lender to become the owner of the sub-CDE and its assets, including the loan. The exercise of the put option effectively allowed the Organization to extinguish the outstanding debt and realize its joint venture investments and note receivable without further cash flow activity. The Organization exercised the put option on August 22, 2022, and all obligations under the NMTC were forgiven.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**8. CONTINGENCIES**

The Organization has sold certain notes receivable from homeowners to local banks. The Organization continues to service these notes, collecting payments and remitting the payments to the banks. The notes have been sold with recourse. If the homeowners fail to make the payments, the Organization will be required to buy the notes back from the banks. As of June 30, 2023, the loans under this arrangement amounted to \$131,588.

**9. DEFERRED COMPENSATION PLAN**

The Organization sponsors a defined contribution §403(b) deferred compensation plan for employees. The Organization's contribution to the §403(b) plan during the fiscal year was \$36,373 and is included in employee benefits on the statement of functional expenses.

**10. PROPERTY AND EQUIPMENT**

As of June 30, 2023, property and equipment consisted of:

|                                 |                            |
|---------------------------------|----------------------------|
| Computers and related equipment | \$ 355,748                 |
| Buildings and improvements      | 1,553,214                  |
| Office equipment                | 60,619                     |
| Furniture and fixtures          | 201,868                    |
| Land                            | 337,162                    |
| Trucks and trailers             | <u>586,390</u>             |
| Total property and equipment    | 3,095,001                  |
| Less accumulated depreciation   | <u>(1,460,224)</u>         |
| Net property and equipment      | <u><u>\$ 1,634,777</u></u> |

**11. NET ASSETS WITH DONOR RESTRICTIONS**

The restrictions on net assets at June 30, 2023, relate to donations that have been recognized, but have been restricted by the donor for a specific purpose or property. Donations received, either in cash or donated services and materials, for a particular property are considered net assets with donor restrictions until that house has been completed and mortgaged to a homeowner or the purpose has otherwise been fulfilled.

The total net assets with donor restrictions as of June 30, 2023, are as follows:

|  |                          |
|--|--------------------------|
| Unamortized discount on notes payable        | \$ 29,527                |
| Construction of homes for qualified families | 580,223                  |
| LAMPP Endowment                              | <u>24,561</u>            |
| Total net assets with donor restrictions     | <u><u>\$ 634,311</u></u> |



**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**12. IN-KIND CONTRIBUTIONS**

As directed by Habitat International, the value of non-skilled donated services is not reflected in the accompanying financial statements, since there is no objective basis to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of time in the Organization's home building and administrative functions.

The Organization attempts, where possible, to value donated services of skilled trades and professionals, and to record these values as contributions in-kind. For the fiscal year ended June 30, 2023, in-kind contributions included as revenue on the statement of activities amounted to \$77,283.

**13. LEASES**

The Organization leases office space under an agreement classified as an operating lease, which expires in June 2028. The lease has a renewal option of three years that has not been included in measuring the respective ROU asset and lease liability. The Organization's discount rate used to arrive at the respective ROU asset and lease liability was 7.00%.

The components of lease expense for the year ended June 30, 2023, are as follows:

|                       |                          |
|-----------------------|--------------------------|
| Operating lease cost  | \$ 103,010               |
| Short-term lease cost | 25,021                   |
| Variable lease cost   | <u>60,225</u>            |
| Total lease cost      | <u><u>\$ 188,256</u></u> |

**Other Information**

Cash paid for amounts included in the measurement of lease liabilities

|  |            |
|--|------------|
| Operating cash flows from operating leases | \$ 101,718 |
|--|------------|

Future minimum lease payments are as follows:

|                                     |                          |
|-------------------------------------|--------------------------|
| Years ending June 30,               |                          |
| 2024                                | \$ 113,375               |
| 2025                                | 123,089                  |
| 2026                                | 123,089                  |
| 2027                                | 123,089                  |
| 2028                                | <u>129,463</u>           |
| Total future minimum lease payments | 612,105                  |
| Less: interest                      | <u>(99,134)</u>          |
| Total lease liabilities             | <u><u>\$ 512,971</u></u> |

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**14. NOTES PAYABLE**

As of June 30, 2023, the Organization has the following notes payable:

|  |                     |
|--|---------------------|
| Unsecured noninterest-bearing Self Help Ownership Program note payable to Habitat International, due in monthly payments of \$1,794.   | \$ 43,387           |
| Noninterest-bearing loans from local banks related to 9 loans receivable from homeowners sold to banks with recourse. Payments approximate monthly amounts received from homeowners. | 131,587             |
| HFHI High Impact Loan, bearing interest at 2.75%, interest only payments until December 2027.  | <u>1,000,000</u>    |
| Total balance of notes payable before imputed interest   | <u>\$ 1,174,974</u> |

Notes payable are also required by US GAAP to be shown at the net present value of the future stream of payments. The Organization has negotiated several interest free and reduced rate loans from local agencies and banks.

To recognize the time value requirement, the Organization records a discount on notes payable so the amounts presented as liabilities in the financial statements properly reflect the present value of the future stream of payments to be made. The same interest rates are used for notes payable and notes receivable originating in the same year. Once a note is recorded, it keeps the same interest rate throughout its life, the same as any fixed rate commercial note. The Organization amortizes the discount recorded on each note over the life of the note. A summary of notes payable as of June 30, 2023, was:

|   |                     |
|---|---------------------|
| Notes payable, before imputing interest | \$ 1,174,974        |
| Discounts on noninterest-bearing notes  | <u>(29,527)</u>     |
| Present value of future cash flows      | 1,145,447           |
| Less portion due in one year            | <u>(46,266)</u>     |
| Notes payable, due after one year       | <u>\$ 1,099,181</u> |

The following are maturities of notes payable as of June 30, 2023:

|                                      |                     |
|--------------------------------------|---------------------|
| Year ending June 30, 2024            | \$ 46,266           |
| Year ending June 30, 2025            | 37,920              |
| Year ending June 30, 2026            | 26,164              |
| Year ending June 30, 2027            | 1,022,339           |
| Year ending June 30, 2028            | 20,675              |
| Year ending June 30, 2029 and beyond | <u>21,610</u>       |
|                                      | <u>\$ 1,174,974</u> |

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**15. ENDOWMENT FUNDS**

The Organization holds \$24,561 classified as endowment funds. These are contributions to the organization specifically designated by the donor to be held permanently by the Organization with only 75% of earnings to be used in operations. The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair market value of the original gift as of the date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions the original value of the gift donated to the endowment fund, and accumulations to the endowment made in accordance with the direction of the donor.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- a) the duration and preservation of the fund,
- b) the purpose of the organization and the donor-restricted endowment fund,
- c) general economic conditions,
- d) the possible (or potential) effects of inflation,
- e) the expected total return from income and the appreciation of investments,
- f) other resources of the organization, and
- g) the investment policies of the organization.

As instructed by the original donor, 25% of interest earned on the endowment is retained in the fund. The endowment funds are invested in a certificate of deposit and are included in the Organization's net assets with donor restrictions.

**16. CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash in bank deposit accounts in financial institutions, which at times may exceed federally insured limits. The Federal Deposit Insurance Corporation (FDIC) provides insurance for all accounts up to \$250,000 at each institution. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held by financial institutions.

**17. RELATED PARTY TRANSACTIONS**

The Organization is an affiliate of Habitat International. As an affiliate, the Organization makes an annual contribution. During the fiscal year, the Organization contributed \$17,000 to Habitat for International, restricted for use in global projects.

The Organization has three board members who are also on the board of directors for Northwest Florida Community Housing Development Corporation (NFCHDC), a nonprofit organization tax-exempt under section 501(c)(3) of the Internal Revenue Code. In addition, three of the employees of the Organization are board members of the NFCHDC.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**18. OVERHEAD ALLOCATION**

The Organization values its houses and construction in progress at cost, plus all direct expenses and an allocation of overhead operating expenses. Construction specific items are identified as direct overhead and totally charged to construction in progress. Other costs not directly associated with construction are identified as indirect overhead and a percentage is charged as an overhead allocation to construction in progress.

**19. LINE OF CREDIT PAYABLE**

The Organization has one unsecured line of credit as of June 30, 2023. The line of credit is in the amount of \$3,000,000, with an interest rate of WSJP + 1%, with a floor of 6% and a ceiling of 18%. There was no outstanding balance as of June 30, 2023.

**20. NEIGHBORWORKS®AMERICA GRANTS**

The Organization has partnered with the NeighborWorks®America network to take advantage of training opportunities and grant funding. During the year ended June 30, 2023, NeighborWorks®America provided unrestricted grants of \$513,450 to support program activities.

NeighborWorks®America reviews partner organizations every three years to assess the financial health, community impact and management strength. The Organization has been assessed as Exemplary, the highest rating, during the past three assessments. This health rating opens up partnership funding opportunities consistently.

**21. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Organization has a \$3,000,000 line of credit available to meet cash flow needs.

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use due to contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

**PENSACOLA HABITAT FOR HUMANITY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

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**21. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS – CONTINUED**

|  |                            |
|--|----------------------------|
| Financial assets at year-end:  |                            |
| Cash and cash equivalents  | \$ 2,436,316               |
| Homeowner escrow cash account  | 610,938                    |
| Certificates of deposit  | 274,561                    |
| Current portion of notes receivable  | 3,369,919                  |
| Other receivables  | <u>1,595,641</u>           |
| Financial assets at year-end   | 8,287,375                  |
| Less those unavailable for general expenditure within one year<br>due to restrictions for purposes other than programmatic purpose | <u>(635,499)</u>           |
| Financial assets available to meet needs for general<br>expenditures within one year   | <u><u>\$ 7,651,876</u></u> |

## **COMPLIANCE SECTION**

**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**

Board of Directors  
Pensacola Habitat for Humanity, Inc.  
Escambia County, 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 Pensacola Habitat for Humanity, Inc. (hereinafter referred to as "Pensacola Habitat"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our reported thereon dated December 4, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pensacola Habitat's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pensacola Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Pensacola Habitat'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 Pensacola Habitat'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 Pensacola Habitat'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 financial statements. 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 Pensacola Habitat's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pensacola Habitat's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Pensacola, Florida  
December 4, 2023