



Carlson & Company, Chartered
Certified Public Accountants

Pensacola Habitat For Humanity, Inc.

Pensacola, Florida

Audited Financial Statements

With Supplementary Information

June 30, 2016

Pensacola Habitat For Humanity, Inc.

Pensacola, Florida

Audited Financial Statements

With Supplementary Information

June 30, 2016

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Carlson & Company, Chartered
Certified Public Accountants

Independent Auditors' Report

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

Report on the Financial Statements

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, 2016, and the related statement of changes in net assets, statement of activities, and statement of cash flows for the year 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization'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 Pensacola Habitat for Humanity, Inc., as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity 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 November 17, 2016, 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 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 Pensacola Habitat for Humanity, Inc.'s internal control over financial reporting.



Pensacola, Florida
November 17, 2016

Pensacola Habitat For Humanity, Inc.

Statement of Financial Position

June 30, 2016

ASSETS

Current assets:	
Cash and cash equivalents	\$ 89,076
Cash restricted for joint venture	91,105
Homeowner escrow cash account	664,972
Repurchase agreement	97,002
Notes receivable, due in one year	3,081,260
Other receivables	240,427
Inventory - Restore	61,724
Construction in progress	4,272,927
Completed houses	5,804,922
Total current assets	<u>14,403,415</u>
Property and equipment:	
Depreciable assets	3,086,730
Land	805,526
Less: accumulated depreciation	<u>(935,267)</u>
Net property and equipment	<u>2,956,989</u>
Other assets:	
Investment in joint venture	1,443,659
Loan obligation costs, net of accumulated amortization	217,471
Certificates of deposit - restricted	23,564
Notes receivable, due after one year	25,961,769
Allowance for uncollectible mortgages	<u>(349,070)</u>
Total other assets	<u>27,297,393</u>
Total assets	<u>\$ 44,657,797</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 116,696
Deferred revenue - joint venture	91,105
Escrow deposits	644,926
Homeowner downpayments	27,855
Accrued leave payable	45,203
Line of credit payable	686,103
Notes payable, due in one year	365,734
Total current liabilities	<u>1,977,622</u>
Notes payable, due after one year	<u>4,319,645</u>
Total liabilities	<u>6,297,267</u>
Net assets	
Unrestricted	29,331,619
Temporarily restricted	9,005,879
Permanently restricted	<u>23,032</u>
Total net assets	<u>38,360,530</u>
Total liabilities and net assets	<u>\$ 44,657,797</u>

The accompanying notes are an integral part of these financial statements.

Pensacola Habitat For Humanity, Inc.
Statement of Changes in Net Assets
For the year ended June 30, 2016

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Net assets, beginning of year	\$ 28,359,033	\$ 9,307,993	\$ 23,032	\$ 37,690,058
Increase (decrease) in net assets	972,586	(302,114)	-	670,472
Net assets, end of year	\$ 29,331,619	\$ 9,005,879	\$ 23,032	\$ 38,360,530

The accompanying notes are an integral part of these financial statements.

Pensacola Habitat For Humanity, Inc.

Statement of Activities

For the year ended June 30, 2016

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Support and revenue received:				
Gifts and donations	\$ 123,252	\$ 171,363	\$ -	\$ 294,615
Mortgage discounts amortization	3,050,814	-	-	3,050,814
Discounts on notes payable acquired	13,716	-	-	13,716
Lease revenue	25,256	-	-	25,256
Late fee revenue	82,884	-	-	82,884
Interest revenue	24,848	-	-	24,848
Restore revenue	412,037	-	-	412,037
Cost of purchased goods sold - restore	(22,736)	-	-	(22,736)
Loss on sale of assets	(359,105)	-	-	(359,105)
Mortgage settlement funds	-	373,741	-	373,741
Community tax credit donations	-	1,568,250	-	1,568,250
NeighborWorks®America grants	150,500	38,000	-	188,500
Self help ownership program grants	298,100	-	-	298,100
Other grants	21,500	-	-	21,500
In kind contributions	-	133,883	-	133,883
Total support and revenue received	<u>3,821,066</u>	<u>2,285,237</u>	-	<u>6,106,303</u>
Assets released from restrictions				
Homes placed with new owners	<u>2,587,351</u>	<u>(2,587,351)</u>	-	-
Total support and revenue	<u>6,408,417</u>	<u>(302,114)</u>	-	<u>6,106,303</u>
Program expenses	4,190,259	-	-	4,190,259
General and administrative expenses	1,069,071	-	-	1,069,071
Fund-raising expenses	176,501	-	-	176,501
Total expenses	<u>5,435,831</u>	-	-	<u>5,435,831</u>
Increase (decrease) in net assets	<u>\$ 972,586</u>	<u>\$ (302,114)</u>	<u>\$ -</u>	<u>\$ 670,472</u>

The accompanying notes are an integral part of these financial statements.

Pensacola Habitat For Humanity, Inc.

Statement of Cash Flows

For the year ended June 30, 2016

Cash flows from operating activities:

Increase in net assets	\$	670,472
Adjustments to reconcile increase in net assets to net cash (used in) operating activities:		
Non-cash items:		
Amortization of loan obligation costs		16,192
Depreciation		146,301
Notes on houses, net of discount		(3,386,527)
Changes in-		
Homeowner escrow cash		(64,282)
Other receivables		433,148
Inventory - Restore		12,733
Construction in progress		641,059
Houses		434,016
Loan obligation costs		(233,663)
Allowance for uncollectible accounts		13,938
Accounts payable		(37,575)
Deferred revenue - joint venture		91,105
Escrow deposits		768
Homeowner downpayments		(23,695)
Accrued leave payable		5,585
Net cash (used in) operating activities		<u>(1,280,425)</u>

Cash flows from investing activities:

Change in investment in joint venture		(1,443,659)
Change in notes receivable		2,271,147
Change in repurchase agreements		110,998
Purchase of fixed assets		(62,502)
Net cash provided by investing activities		<u>875,984</u>

Cash flows from financing activities:

Change in line of credit borrowing		(1,590,000)
Change in notes payable		2,017,369
Net cash provided by financing activities		<u>427,369</u>

Net increase in cash

		22,928
Cash and cash equivalents, beginning of year		157,253
Cash and cash equivalents, end of year	\$	<u>180,181</u>

Interest paid during fiscal year	\$	107,827
Income taxes paid during fiscal year	\$	-

The accompanying notes are an integral part of these financial statements.

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

NOTE 1 – SCOPE AND PURPOSE

Pensacola Habitat for Humanity, Inc. (the Organization), is a non-profit organization providing affordable housing ownership for low income families in Northwest Florida. The Organization is an affiliate of Habitat for Humanity International (HFHI).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the accrual basis of accounting. The accounts of the Organization are maintained in accordance with the accounting and operating procedures recommended by HFHI.

Cash and Cash Equivalents

Cash and cash equivalents are unrestricted cash, checking, and savings accounts.

Income Tax Status

The Organization is exempt from federal and state income taxes under §501(c)(3) of the Internal Revenue Code, and Florida Statutes §220.13(2). However, income from certain activities not directly related to the Organization's tax exempt purpose may be subject to taxation as unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is required to file an annual information report with the Internal Revenue Service (IRS) on Form 990. These required filings are current and are subject to examination by the IRS, generally for three years after they are filed.

Depreciation

Property and equipment items purchased are stated at cost, net of depreciation. In-kind contributions of property and equipment are stated at appraised values at the date of contribution, net of depreciation. Depreciation is computed on the straight-line basis over estimated useful lives ranging from five to thirty-nine years.

Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give. Contributions restricted by the donor are reported as increases in unrestricted assets if the restriction expires in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

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

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support

All contributions received are considered available for unrestricted use unless restricted by the donor.

Inventory

Purchased inventory is stated at actual cost, and contributed inventory at estimated fair market value at the date of the contribution.

Financial Statement Presentation

Under generally accepted accounting principles for not-for-profit organizations, the Organization reports its financial position and activities in three classes of net assets: (1) unrestricted net assets, (2) temporarily restricted net assets, and (3) permanently restricted net assets. The classification depends on any restrictions on the contribution by the donor. If there is no restriction, it is unrestricted. If the donor restriction will be satisfied with the passage of time, or a specified event, the contribution is temporarily restricted until the restriction is met, then it is moved to unrestricted. If the donor restriction will never expire, it is permanently restricted.

Fair Value of Financial Instruments

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to indicate the method of measurement of fair values of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of the risk associated with a particular item or group of items. They are merely a description of the method used to determine the amount at which the items are reflected in the financial statements. The levels for determining the value at which items are shown are:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical items publicly traded in active and open market (such as stocks or bonds issued by public companies traded on a daily basis in a regulated market).

Level 2 – Observable prices for similar items (but not identical items) that are directly or indirectly identifiable in similar markets.

Level 3 – Other unobservable inputs which are supported by little or no market activity. This level includes methods to determine the approximate value at which an item should be shown, such as amortization of initial discount or premium on the financial instrument over time.

Certificates of deposit with financial institutions covered by FDIC insurance are stated at cost plus accrued interest, which represents current value. These are considered as equivalent to Level 1 as a result of the FDIC insurance up to the limit of FDIC insurance (currently \$250,000 per institution).

Repurchase agreements are securities purchased with an agreement to resell in the short term to a regulated and secure financial institution. These are considered as equivalent to Level 1 as a result of the definitive repurchase agreement at a set price with a secure and regulated financial entity.

Investment in Joint Ventures

Investments in joint ventures in which the Organization is not able to exercise significant influence are reported at cost.

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events Disclosure

The Organization has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2016 financial statements through November 17, 2016 the date the financial statements were available to be issued.

NOTE 3 - NOTES RECEIVABLE

Notes receivable are required by generally accepted accounting principles to be shown at the net present value of the future stream of payments to reflect the time value of money. Habitat for Humanity International (HFHI) directs that no interest is charged to homeowners on notes for houses. To recognize this distinction between the requirements of HFHI and the requirements of generally accepted accounting principles, 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 HFHI 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. Amortization included as revenue for the fiscal year amounted to \$3,096,989.

As of June 30, 2016, notes receivable secured by real estate, due on various dates, with no stated interest, consisted of:

Notes receivable, before imputing interest	\$ 53,441,309
Discounts on non-interest bearing notes for imputed interest	<u>(24,398,280)</u>
Present value of future cash flows	29,043,029
Less portion due in one year	<u>(3,081,260)</u>
Notes receivable, due after one year	<u><u>\$ 25,961,769</u></u>

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

Year ending June 30, 2018	\$ 2,831,533
Year ending June 30, 2019	2,593,384
Year ending June 30, 2020	2,361,902
Year ending June 30, 2021	2,159,652
Year ending June 30, 2022	1,983,191
Year ending June 30, 2023 & beyond	<u>14,032,107</u>
	<u><u>\$ 25,961,769</u></u>

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 3 - NOTES RECEIVABLE (CONTINUED)

Of the 983 loans outstanding as of June 30, 2016, 893 loans with a face value of \$48,462,502 were considered current and 34 loans totaling \$1,976,026 were 31-60 days delinquent. The remaining 56 loans with a face value of \$3,002,781 were over 60 days delinquent. The amount of loans foreclosed during the year was \$1,376,196. As a result of the foreclosed loans, mortgage discount revenue of \$913,766 was recognized and is included in mortgage discounts amortization revenue.

Specific non-interest bearing notes receivable are pledged to secure some loans. The remaining undiscounted receivable balance (face amount) of the loans pledged is approximately \$1,254,308 as of June 30, 2016. The amount of notes receivable has been discounted for financial statement purposes to reflect the time value of money. The discounted amount of these notes receivable that is reflected in the financial statements of the notes receivable pledged as security is \$923,216.

NOTE 4 – INVESTMENT IN JOINT VENTURE

Pensacola Habitat invested, along with 12 other Habitat affiliates, in a joint venture (HFHI NMTC Leverage Lender 2013-1, LLC) with 9.35 percent (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, Habitat has invested \$1,441,255 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 are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years 1 through 7 at a reduced rate of 0.682211%. Beginning in year 8 through year 30, the principal balance of the loan is reduced by a twenty-one (21) year amortization at the same rate of 0.682211%.

The loan has a put option that will enable the leverage lender to become the owner of the sub-CDE and its assets, including the loan. The exercise of the put option will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investments and note receivable without further cash flow activity.

The Organization incurred loan obligation costs and fees related to the investment in the joint venture. The costs and amortization are as follows:

	Amortizable Costs	Years
Affiliate expense reserve	\$ 106,289	7
HFHI structuring fee	78,693	30
NMTC closing costs	48,681	30
Total amortizable loan obligation costs	233,663	
Less accumulated amortization	(16,192)	
Loan obligation costs, net	<u>\$ 217,471</u>	

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 5 – NOTES PAYABLE

As of June 30, 2016, PHFH has the following notes payable:

Note payable to Coastal Bank. The note is due in monthly installments of \$2,195 and matures on November 1, 2018. The note bears interest at 4.4% and is secured by the Milton ReStore property. \$ 244,547

Note payable to Coastal Bank. The note is due in monthly installments of \$4,806 and matures on December 18, 2025. The note bears interest at 3.95% and is secured by the office at 300 W Leonard Street. 617,171

Note payable to Coastal Bank. The note is due in monthly installments of interest only and matures on March 30, 2017. The note bears interest at 3.5% and is secured by residential lots in Carmell Ridge - Milton. 297,500

Securitized Line of Credit payable to Coastal Bank. The note is due in monthly installments of \$3,787.49 and matures on January 28, 2026. The note bears interest at 30-Day Libor + 1.5% and is secured by specified notes and mortgages. 481,065

Unsecured noninterest-bearing Self Help Ownership Program grants payable to Habitat for Humanity International, Inc. in monthly payments totaling \$6,800. 673,280

Noninterest-bearing loans from local banks related to 25 loan receivables from homeowners sold to banks with recourse. Payments approximate monthly amounts received from homeowners. 491,819

Note payable to HFHI NMTC Leverage Lender 2013-1 LLC. The note bears interest at a rate of 0.682211% and requires interest only payments until November 2023. The loan matures in November 2044, and has a put option feature that is exercisable August 2022. The note is secured by a Pledge Account and a generalized UCC-1. 2,112,834

Total balance of notes payable before imputed interest \$ 4,918,216

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 5 – NOTES PAYABLE (CONTINUED)

Notes payable are also required by generally accepted accounting principles 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, 2016, was:

Notes payable, before imputing interest	\$	4,918,216
Discounts on non-interest bearing notes		(232,838)
Present value of future cash flows		<u>4,685,378</u>
Less portion due in one year		(365,734)
Notes payable, due after one year	\$	<u><u>4,319,644</u></u>

The following are maturities of long-term notes payable, as discounted.

Year ending June 30, 2018	\$	305,141
Year ending June 30, 2019		269,701
Year ending June 30, 2020		244,623
Year ending June 30, 2021		205,992
Year ending June 30, 2022		134,516
Year ending June 30, 2023 & beyond		<u>3,159,671</u>
	\$	<u><u>4,319,644</u></u>

NOTE 6 – RESTRICTIONS ON NET ASSETS

The restrictions on net assets at June 30, 2016, relate to donations that have been recognized during the fiscal year 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 temporarily restricted funds until that house has been completed and mortgaged to a homeowner.

NOTE 7 – 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 \$25,924 and is included on the statement of functional expenses.

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 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, 2016, the loans under this arrangement amounted to \$491,819.

NOTE 9 - IN-KIND CONTRIBUTIONS

As directed by Habitat for Humanity 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, 2016, in-kind contributions included as temporarily restricted revenue on the statement of activities amounted to \$133,883.

NOTE 10 - ENDOWMENT FUNDS

The Organization holds funds 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 permanently restricted net assets the original value of the gift donated to the permanent endowment fund, and accumulations to the permanent 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 make up the organization's permanently restricted net assets.

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 11 - 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.

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances at several federally insured banks. Interest bearing deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor at each banking institution. The Organization had uninsured balances of approximately \$381,700 at June 30, 2016.

NOTE 13 – PROPERTY AND EQUIPMENT

As of June 30, 2016, property and equipment consisted of:

Computers and related equipment	\$	155,102
Buildings and improvements		2,421,837
Office equipment		28,444
Furniture and fixtures		145,091
Land		805,526
Trucks and trailers		<u>336,256</u>
Total property and equipment		3,892,256
Less accumulated depreciation		<u>(935,267)</u>
Net property and equipment	\$	<u><u>2,956,989</u></u>

Depreciation expense for the fiscal year was \$146,301.

NOTE 14– ALLOWANCE FOR UNCOLLECTABLE MORTGAGES

The Organization has established an estimate of uncollectable mortgages based on historical information. The allowance for uncollectable mortgages has been calculated on an estimated foreclosure rate of 1.2%.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Organization is an affiliate of Habitat for Humanity International (HFHI). As an affiliate, the Organization makes an annual contribution to HFHI. During the fiscal year, the Organization contributed \$28,297 to HFHI's international work.

Pensacola Habitat For Humanity, Inc.

Notes to Financial Statements

June 30, 2016

(Continued)

NOTE 16 – LINE OF CREDIT PAYABLE

The amount shown as line of credit payable consists of two unsecured lines of credit. The first line of credit is in the amount of \$150,000, with an interest rate of 3.25%, with an outstanding balance of \$100,000 at June 30, 2016. The second is a \$3,500,000 line of credit, with a variable interest rate of 1.5% over the LIBOR rate. The interest rate on the second line of credit at June 30, 2016 was 1.65% with an outstanding balance of \$586,103.

NOTE 17 – HOMEOWNER ESCROW CASH

Homeowner escrow funds to cover homeowner insurance premiums and real estate taxes are collected each month and held in a separate cash account that is not available for general operations. Homeowner escrow cash totaled \$664,972 at June 30, 2016. The corresponding liability of \$644,927 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.

NOTE 18 – NEIGHBORWORKS®AMERICA GRANTS

The Organization has partnered with the NeighborWorks®America network to take advantage of training opportunities and grant funding. During the year ending June 30, 2016, NeighborWorks®America provided unrestricted expendable grants of \$150,500 to support program activities. In addition, \$38,000 was provided for use in rehabilitation and restoration of homes in the local area damaged by a tornado in February 2016.



Carlson & Company, Chartered
Certified Public Accountants

Independent Auditors' Report
on
Unaudited Statement of Functional Expenses

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

Our audit of the financial statements of Pensacola Habitat For Humanity, Inc., as of and for the year ended June 30, 2016, was to express an opinion on the basic financial statements taken as a whole. The additional information presented in the unaudited statement of functional expenses on the following page has been taken primarily from accounting and other records of Pensacola Habitat For Humanity, Inc., is presented for purposes of additional analysis, and is not a part of the basic financial statements of Pensacola Habitat For Humanity, Inc. This information has not been subjected to tests and other auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or any other form of assurance on the additional information.

Carlson & Company

Pensacola, Florida
November 17, 2016

Pensacola Habitat For Humanity, Inc.
 Unaudited Statement of Functional Expenses
 For the year ended June 30, 2016

	<u>Construction Program Expense</u>	<u>Restore Program Expense</u>	<u>Total Program Expenses</u>	<u>General and Administrative</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Accounting and legal fees	\$ 81,814	\$ -	\$ 81,814	\$ 37,442	\$ -	\$ 119,256
Advertising	29,714	8,300	38,014	1,750	25,925	65,689
Amortization of loan obligation costs	-	-	-	16,192	-	16,192
Bank and credit card fees	-	10,116	10,116	-	-	10,116
Conference and meetings	16,688	-	16,688	-	-	16,688
Depreciation	-	32,612	32,612	113,689	-	146,301
Information technology	-	4,524	4,524	35,899	-	40,423
Insurance	58,804	-	58,804	57,974	-	116,778
Interest expenses	66,940	13,600	80,540	27,287	-	107,827
Miscellaneous expenses	-	-	-	32,201	-	32,201
Note payable discount amortization	54,610	5,099	59,709	-	-	59,709
Office expense	21,480	4,716	26,196	74,232	23,831	124,259
Employee benefits	127,382	27,385	154,767	58,729	15,231	228,727
Payroll taxes	176,831	29,546	206,377	69,478	13,963	289,818
Property tax	-	-	-	4,447	-	4,447
Pension plan contributions	14,245	1,892	16,137	8,882	906	25,925
Repairs and maintenance	70,598	20,090	90,688	16,210	-	106,898
Salaries and wages	874,887	155,986	1,030,873	487,399	96,645	1,614,917
Taxes and licenses	828	6,518	7,346	-	-	7,346
Tithe to Habitat for Humanity International	28,297	-	28,297	-	-	28,297
Travel	40,600	3,031	43,631	-	-	43,631
Uncollectible mortgage expenses	13,938	-	13,938	-	-	13,938
Utilities	1,669	20,806	22,475	27,260	-	49,735
Overhead allocation to cost of homes built	(1,912,914)	-	(1,912,914)	-	-	(1,912,914)
Cost of houses transferred	7,466,154	-	7,466,154	-	-	7,466,154
Less mortgages net of discounts	(3,386,527)	-	(3,386,527)	-	-	(3,386,527)
Totals	<u>\$ 3,846,038</u>	<u>\$ 344,221</u>	<u>\$ 4,190,259</u>	<u>\$ 1,069,071</u>	<u>\$ 176,501</u>	<u>\$ 5,435,831</u>

See Independent Auditors' Report on Unaudited Statement of Functional Expenses



Carlson & Company, Chartered
Certified Public Accountants

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

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

We have audited, 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, the financial statements of the Pensacola Habitat for Humanity, Inc., (the Organization), which comprise the statement of financial position as of June 30, 2016, and the related statement of changes in net assets, statement of activities, and statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the 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 Organization'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.

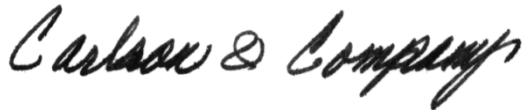
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, 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 the Organization's financial statements are free of 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.

A handwritten signature in cursive script that reads "Carlson & Company".

Pensacola, Florida
November 17, 2016

Pensacola Habitat For Humanity, Inc.

Schedule of Findings

For the Year Ended June 30, 2016

Section A - Summary of Auditors' Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Section B – Other information requested by NeighborWorks®America

1. Pensacola Habitat for Humanity did not expend more than \$750,000 in Federal awards during the year ended June 30, 2016.
2. Funds received of \$38,000 as temporarily restricted NeighborWorks®America funds were held in a bank account fully insured by FDIC insurance at June 30, 2016.
3. A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2016.