PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024

Warren Averett
CPAs AND ADVISORS
www.warrenaverett.com

The report accompanying this deliverable was issued by Warren Averett, LLC.

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
TABLE OF CONTENTS
JUNE 30, 2024

Warren Averett
CPAs AND ADVISORS

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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 consolidated financial statements of Pensacola Habitat for Humanity, Inc. (a nonprofit organization) and subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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 the Organization 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Warren Averett, LLC

Pensacola, Florida
November 8, 2024

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

Current assets:	
Cash and cash equivalents	$ 1,669,304
Restricted cash and cash equivalents	1,313,614
Certificates of deposit	509,317
Homeowner escrow cash	173,053
Notes receivable, due in one year	3,436,489
Other receivables	1,879,612
Inventory - ReStore	177,307
Homes under construction	4,790,526
Completed homes	4,472,487
Total current assets	18,421,709
Property and equipment, net	1,565,122
Other assets:	
Investment in joint venture	1,229,874
Operating lease right-of-use asset, net	345,166
Certificates of deposit - restricted	24,580
Notes receivable, due after one year, net of unamortized discount	26,057,178
Other assets	15,646
Total other assets	27,672,444
Total assets	$ 47,659,275

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 184,650
Escrow deposits	145,039
Homeowner down payments	54,437
Accrued expenses	510,822
Current portion of operating lease liability	95,248
Line of credit	1,400,000
Notes payable, due in one year	40,869
Total current liabilities	2,431,065
Long-term liabilities:	
Notes payable, due after one year, net	2,824,594
Operating lease liability, net of current portion	337,897
Total long-term liabilities	3,162,491
Total liabilities	5,593,556
Net assets	
Without donor restrictions	41,453,618
With donor restrictions	612,101
Total net assets	42,065,719
Total liabilities and net assets	$ 47,659,275

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Gifts and donations	$ 106,034	$ 299,548	$ 405,582
Contributions of nonfinancial assets	375	43,600	43,975
Home sales, net	4,662,233	-	4,662,233
Mortgage discounts amortization	2,170,640	-	2,170,640
Discounts on notes payable acquired	-	2,458	2,458
Interest and late fees	240,607	-	240,607
ReStore revenue	1,188,452	-	1,188,452
Gain on sale of assets	2,264,052	-	2,264,052
Special events (net of $91,556 expenses)	140,638	-	140,638
Community tax credit donations	-	1,205,500	1,205,500
NeighborWorks®America grants	440,664	-	440,664
Other grants	659,199	-	659,199
Other income	97,975	-	97,975
Net assets released from restrictions	1,573,316	(1,573,316)	-
Total revenue, gains and other support	13,544,185	(22,210)	13,521,975
Expenses			
Program expenses	11,344,415	-	11,344,415
General and administrative expenses	2,215,660	-	2,215,660
Fundraising expenses	362,072	-	362,072
Total expenses	13,922,147	-	13,922,147
Change in net assets	(377,962)	(22,210)	(400,172)
Net assets, beginning of year	41,831,580	634,311	42,465,891
Net assets, end of year	$ 41,453,618	$ 612,101	$ 42,065,719

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Construction Program Expense	ReStore Program Expense	Total Program Expenses	General and Administrative	Fundraising Expenses	Total Expenses
Accounting and legal fees	$ 100	$ -	$ 100	$ 111,670	$ -	$ 111,770
Advertising	4,404	33,575	37,979	31,352	12,501	81,832
Bank and credit card fees	-	28,038	28,038	-	-	28,038
Conference and meetings	22,980	-	22,980	20,116	3,276	46,372
Costs of construction and sales	11,441,664	157,180	11,598,844	-	-	11,598,844
Depreciation	-	19,152	19,152	112,661	-	131,813
Information technology	-	8,335	8,335	83,022	-	91,357
Insurance	-	6,737	6,737	154,625	-	161,362
Interest expense	13,737	-	13,737	101,324	-	115,061
Miscellaneous expenses	-	1,372	1,372	-	-	1,372
Office expense	85,257	11,203	96,460	219,948	29,544	345,952
Employee benefits	191,828	46,547	238,375	115,165	24,732	378,272
Payroll taxes	140,173	39,372	179,545	90,238	22,392	292,175
Pension plan contributions	18,643	2,180	20,823	23,586	2,342	46,751
Rents	-	181,253	181,253	-	-	181,253
Repairs and maintenance	465,150	25,146	490,296	109,719	-	600,015
Salaries and wages	1,265,841	447,547	1,713,388	987,998	267,543	2,968,929
Taxes and licenses	-	26	26	1,488	-	1,514
Tithe to Habitat for Humanity International	22,500	-	22,500	-	-	22,500
Travel	47,618	14,408	62,026	23,080	(258)	84,848
Utilities	-	35,661	35,661	29,668	-	65,329
Overhead allocation to cost of homes built	(3,433,212)	-	(3,433,212)	-	-	(3,433,212)
Totals	$ 10,286,683	$ 1,057,732	$ 11,344,415	$ 2,215,660	$ 362,072	$ 13,922,147

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets:	$ (400,172)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Noncash items:	
Amortization of mortgage discounts	(2,170,640)
Credit losses	31,462
Amortization of loan obligation costs	5,903
Amortization of discount on note payable	8,971
Depreciation	131,813
Noncash lease expense	(10,365)
Gain on disposal of property and equipment	(6,861)
Changes in assets and liabilities:	
Homeowner escrow cash	437,885
Other receivables	(283,971)
Inventory - ReStore	(13,906)
Homes under construction	508,680
Accounts payable	(86,145)
Escrow deposits	(498,754)
Homeowner down payments	(24,282)
Accrued expenses	196,844
Deferred revenue and rents	151,084
Other assets	(8,093)
Net cash used in operating activities	(2,030,547)

See notes to the financial statements.

PENSACOLA HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024

CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in joint venture	$ (1,380,958)
Changes in mortgage notes receivable, net	1,175,151
Proceeds from sale of property and equipment	10,000
Purchase of certificates of deposit	(259,336)
Purchases of property and equipment	(65,297)
Net cash provided by investing activities	(520,440)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings on notes payable	3,153,337
Repayments of notes payable	(48,195)
Net cash provided by financing activities	3,105,142
NET INCREASE IN CASH	554,155
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT JULY 1, 2023	2,428,763
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT JUNE 30, 2024	$ 2,982,918
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Transfers of property to homeowners through issuance of mortgages, net of discounts	4,693,695

See notes to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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 and Santa Rosa 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.

Principles of Consolidation

The consolidated financial statements include the accounts of Pensacola Habitat for Humanity, Inc., and its subsidiary, Northwest Florida Community Land Trust (CLT). All intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation

The consolidated 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, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (also referred to as current expected credit losses, or "CECL"), using the modified retrospective transition method. This ASU amends the impairment model to utilize an expected loss methodology in place of the incurred loss methodology for financial instruments, including trade receivables, and off-balance sheet credit exposures. The amendment requires entities to consider a broader range of information to estimated expected credit losses, which may result in earlier recognition of losses. Adoption did not significantly impact the financial statements.

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 consolidated 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.

Contributions of nonfinancial assets (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 consolidated 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. The treatment of labor donated by volunteers is addressed in Note 11.

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.

Home sales are presented net of this discount, which totaled $3,433,581 for the year ended June 30, 2024. Revenues and cash flows are affected by various economic factors. Internally financed properties require monthly mortgage payments, with payment due 10 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. For home sales financed internally by Pensacola Habitat for Humanity, 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 uncollectible mortgages based on historical information. The allowance for uncollectible notes has been calculated on an estimated foreclosure rate of 1.2%. Credit losses for the year ended June 30, 2024, were $31,462.

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 consolidated statement of financial position as its value is deemed unknown until the item is sold at ReStore.

Homes Under Construction
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 right-of-use (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 consolidated 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 consolidated statement of financial position. Operating lease expense is included in program expenses on the consolidated statement of activities.

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

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 consolidated financial statements. As of June 30, 2024, the Organization had no uncertain tax positions or interest or penalties that qualify for either recognition or disclosure in the consolidated financial statements.

Date of Management Review
The Organization has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2024, consolidated financial statements through November 8, 2024, the date the consolidated financial statements were available to be issued.

2. HOMEOWNER ESCROW CASH

In November 2022, the Organization transferred servicing of the mortgage portfolio to Covey Financial (Covey), San Antonio, Texas. 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 $173,053 as of June 30, 2024. The corresponding liability of $145,039 is shown in the current liabilities section of the consolidated 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 Real Estate Settlement Procedures Act (RESPA) standards.

3. 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.

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 consolidated 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 consolidated 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, 2024, notes receivable secured by real estate, due on various dates, with no stated interest, consisted of:

Notes receivable, before imputing interest	$	50,982,285
Discounts on noninterest-bearing notes for imputed interest		(20,970,538)
Present value of future cash flows	$	30,011,747
Notes receivable, due in one year	$	3,436,489
Notes receivable, due after one year		26,057,178
Total notes receivable	$	29,493,667

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

Year ending June 30, 2025	$	3,436,489
Year ending June 30, 2026		3,259,386
Year ending June 30, 2027		2,988,166
Year ending June 30, 2028		2,700,935
Year ending June 30, 2029 and beyond		17,626,771
	$	30,011,747

The amount of loans foreclosed during the year was $436,890. As a result of the foreclosed loans, mortgage discount revenue of $24,043 was recognized and is included in mortgage discounts amortization revenue.

4. 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 $50,000 in down payment assistance through Santa Rosa County's State Housing Initiatives Partnership (SHIP) program, $35,000 from Santa Rosa County HOME program and $665,000 through Florida Housing Finance Corporation's (Homeownership Pool) HOP program.

5. EMPLOYEE RETENTION CREDIT

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Company was eligible for a refundable Employee Retention Credit (ERC) for certain quarters of tax years 2021, subject to certain criteria. The Organization applied for and recognized employee retention credits totaling $467,317, during the year ended June 30, 2023, which was shown in other receivables on the consolidated statement of financial position. Actual amounts of $264,590 received from the refund were received in August 2023. As of June 30, 2024, the remaining balance of the ERC receivable was $202,727.

6. INVESTMENT IN JOINT VENTURE

During 2024, the Organization invested, along with three other Habitat International affiliates, in a joint venture (HFHI NMTC SUB-CDE VI, LLC) with 11.15% 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 $1,380,958 and was able to secure a 30-year loan in the amount of $1,960,000, 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 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.

7. 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, 2024, the loans under this arrangement amounted to $123,151, and were all considered current.

8. 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 $46,751 and is included in employee benefits on the consolidated statement of functional expenses.

9. PROPERTY AND EQUIPMENT

As of June 30, 2024, property and equipment consisted of:

Land	$ 337,164
Buildings and improvements	1,564,637
Furniture and fixtures	212,964
Computers and related equipment	367,193
Office equipment	60,619
Trucks and trailers	598,606
Total property and equipment	3,141,183
Less accumulated depreciation	(1,576,061)
Net property and equipment	$ 1,565,122

10. NET ASSETS WITH DONOR RESTRICTIONS

The restrictions on net assets at June 30, 2024, 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, 2024, were as follows:

Unamortized discount on notes payable	$ 23,463
Construction of homes for qualified families	565,220
LAMPP Endowment	23,418
Total net assets with donor restrictions	$ 612,101

11. CONTRIBUTIONS OF NONFINANCIAL ASSETS

As directed by Habitat International, the value of non-skilled donated services is not reflected in the accompanying consolidated 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 nonfinancial assets. For the fiscal year ended June 30, 2024, in-kind contributions included as revenue on the consolidated statement of activities amounted to $43,975.

12. 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, 2024, are as follows:

Operating lease cost	$	103,010
Short-term lease cost		25,004
Variable lease cost		60,225
Total lease cost	$	188,239

Future minimum lease payments are as follows:

Years ending June 30,		
2025	$	123,089
2026		123,089
2027		123,089
2028		129,463
Total future minimum lease payments		498,730
Less: interest		(65,585)
Total lease liabilities	$	433,145

13. LINE OF CREDIT PAYABLE

The Organization has one unsecured line of credit as of June 30, 2024. 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%. The line of credit matures in March 2025. As of June 30, 2024, the outstanding balance of the line of credit was $1,400,000.

14. NOTES PAYABLE

As of June 30, 2024, 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.	$ 38,593
Noninterest-bearing loans from local banks related to nine loans receivable from homeowners sold to banks with recourse. Payments approximate monthly amounts received from homeowners.	108,021
HFHI High Impact Loan, bearing interest at 2.75%, interest only payments until December 2027.	1,000,000
Note payable to HFHI NMTC Leverage Lender SUB-CDE VI, LLC, bearing interest at 0.826%, interest only payments until March 2031.	1,960,000
Total balance of notes payable before imputed interest	$ 3,106,614

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 consolidated 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, 2024, was:

Notes payable, before imputing interest	$ 3,106,614
Discounts on noninterest-bearing notes	(23,463)
Present value of future cash flows	3,083,151
Less portion due in one year	(40,869)
Notes payable, due after one year	$ 3,042,282

The following are maturities of notes payable as of June 30, 2024:

Year ending June 30, 2025	$ 40,869
Year ending June 30, 2026	26,418
Year ending June 30, 2027	1,023,798
Year ending June 30, 2028	21,950
Year ending June 30, 2029	20,145
Year ending June 30, 2030 and beyond	1,973,434
	$ 3,106,614

15. ENDOWMENT FUNDS

The Organization holds $24,580 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 $22,500 to Habitat for International, restricted for use in global projects.

The Organization has one board member who is 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. During the fiscal year, the Organization recognized $501,649 of grant income and $501,649 of expenses related to home construction services performed for NFCHDC. As of June 30, 2024, $339,594 is due from NFCHDC and is included in other receivables in the consolidated statement of financial position.

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. NEIGHBOR WORKS® AMERICA GRANTS

The Organization has partnered with the Neighbor Works® America network to take advantage of training opportunities and grant funding. During the year ended June 30, 2024, Neighbor Works® America provided unrestricted grants of $440,664 to support program activities.

Neighbor Works® 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.

20. 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 consolidated statement of financial position.

Financial assets at year-end:	
Cash and cash equivalents	$ 1,669,304
Unrestricted certificates of deposit	509,317
Current portion of mortgages receivable	3,436,489
Other receivables	1,879,612
Financial assets at year-end	7,494,722

COMPLIANCE SECTION

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CPAs AND ADVISORS

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

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 consolidated financial statements of Pensacola Habitat for Humanity, Inc. and subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 8, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated 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 Organization's consolidated 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 or significant deficiencies may exist that were not identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated 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 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 report is not suitable for any other purpose.

Warren Averett, LLC

Pensacola, Florida
November 8, 2024