Habitat for Humanity of Jacksonville, Inc.

(a non-profit organization)
Jacksonville, Florida

Consolidated Financial Statements
June 30, 2023 and 2022

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

RALSTON & COMPANY
certified public accountants

R. BRUCE SHEALY
KEVIN M. FRITZ
JON E. CORNAIRE
MICHAEL R. RITCH
GREGORY S. LACINA

ROBERT E. RALSTON
(1921 - 1986)

BERT J. PITTMAN, JR.
(1944 - 2019)

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Jacksonville, Inc. (a non-profit organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Jacksonville, Inc. as of June 30, 2023 and 2022, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

8777 San Jose Boulevard, Suite 600 • Jacksonville, Florida 32217-4213 • Phone: 904.730.0440 • Fax: 904.730.0993 • www.ralstoncpas.com

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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, 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 Habitat for Humanity of Jacksonville, 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 Habitat for Humanity of Jacksonville, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2023, on our consideration of Habitat for Humanity of Jacksonville, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Jacksonville, Inc.'s internal control over financial reporting and compliance.

Robertson & Company P.A.

November 1, 2023

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Consolidated Statements of Financial Position
June 30, 2023 and 2022

ASSETS

	2023	2022
Cash and cash equivalents	$ 5,384,821	$ 8,137,191
Restricted cash - NMTC	563	340
Certificates of deposit	1,530,644	-
Investment in NMTC	977,836	977,836
Pledges receivable	285,000	80,500
Grants receivable	-	103,986
Accounts receivable - other	150,426	30,496
Mortgage notes receivable - net of unearned discounts	9,377,734	10,019,276
Inventory	4,182,598	1,771,314
Prepaid expenses and other assets	329,078	234,278
Property and equipment - net of accumulated depreciation	5,311,803	6,035,400
Right-of-use lease assets - operating lease, net	175,674	-
Land held for future use	2,046,478	1,396,547
Total assets	$ 29,752,655	$ 28,787,164

LIABILITIES AND NET ASSETS

	2023	2022
Accounts payable	$ 88,163	$ 291,291
Accrued expenses	92,827	153,474
Deferred revenue	3,003	8,819
Notes payable	26,912	36,599
Loan payable - NMTC	1,385,046	1,382,342
Operating lease obligation	182,734	-
Tenant security deposits	12,678	8,684
Deposits and payments on houses awaiting closing	25,767	12,926
Total liabilities	1,817,130	1,894,135
Net assets:		
Without donor restrictions	27,782,001	26,879,329
With donor restrictions	153,524	13,700
Total net assets	27,935,525	26,893,029
Total liabilities and net assets	$ 29,752,655	$ 28,787,164

The accompanying notes are an integral part of this statement.

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Consolidated Statements of Activities
For the years ended June 30, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions		
Revenue and support		
Program service revenue	$ 5,426,885	$ 5,512,616
Contributions and sponsorships	1,161,227	3,176,777
Noncash contributions	1,592,962	1,657,003
Amortization of mortgage discount, net	895,457	704,821
Grants	-	154,976
Tiny Home rental income, net	(21,303)	67,728
Interest income	174,735	17,047
Gain on sale of asset	1,179,130	3,100
Other income	2,777	422
Total revenue and support	10,411,870	11,294,490
Net assets released from restriction	10,176	120,171
	10,422,046	11,414,661
Expenses		
Program services	8,145,132	7,846,656
Management and general	818,423	704,166
Fundraising	555,819	402,628
Total expenses	9,519,374	8,953,450
Change in net assets without donor restrictions	902,672	2,461,211
Changes in net assets with donor restrictions		
Contributions	150,000	4,600
Net assets released from restrictions	(10,176)	(120,171)
Change in net assets with donor restrictions	139,824	(115,571)
Increase in net assets:	1,042,496	2,345,640
Net assets - beginning of year	26,893,029	24,547,389
Net assets - end of year	$ 27,935,525	$ 26,893,029

The accompanying notes are an integral part of this statement.

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Consolidated Statement of Functional Expenses
For the year ended June 30, 2023

	Program Services	Supporting Services Management and General	Fund Raising	Total
Salaries	$ 1,534,954	$ 490,694	$ 301,695	$ 2,327,343
Employee benefits	149,842	48,955	29,836	228,633
Payroll taxes	127,345	38,370	24,159	189,874
Total salaries and related expenses	1,812,141	578,019	355,690	2,745,850
Construction and supplies	4,789,682	-	-	4,789,682
Rent	638,406	9,730	52,647	700,783
Office and premises	163,420	106,509	48,429	318,358
Depreciation	268,181	16,881	2,424	287,486
Insurance	140,616	7,108	1,439	149,163
Professional fees	75,826	48,699	15,523	140,048
Maintenance	107,964	3,359	483	111,806
Vehicle expenses	69,624	193	27	69,844
Advertising	8,748	29,110	14,910	52,768
Special events	3,672	-	33,429	37,101
Telephone and communications	15,008	13,077	1,878	29,963
Tithe	-	-	16,140	16,140
Interest	9,780	-	-	9,780
Community development	1,589	-	-	1,589
Warranty	52	-	-	52
Other	40,423	5,738	12,800	58,961
Total expenses	$ 8,145,132	$ 818,423	$ 555,819	$ 9,519,374

The accompanying notes are an integral part of this statement.

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

	Program Services	Supporting Services Management and General	Fund Raising	Total
Salaries	$ 1,356,790	$ 422,215	$ 249,233	$ 2,028,238
Employee benefits	122,144	40,930	27,626	190,700
Payroll taxes	114,759	33,947	19,996	168,702
Total salaries and related expenses	1,593,693	497,092	296,855	2,387,640
Construction and supplies	4,652,072	-	-	4,652,072
Rent	638,406	9,730	1,396	649,532
Office and premises	133,811	82,609	25,001	241,421
Depreciation	201,915	20,056	2,869	224,840
Professional fees	84,685	65,674	16,460	166,819
Insurance	129,720	6,715	1,447	137,882
Maintenance	125,792	6,129	880	132,801
Community development	101,549	-	-	101,549
Vehicle expenses	58,278	-	-	58,278
Warranty	52,269	-	-	52,269
Special events	-	-	31,638	31,638
Telephone and communications	15,360	9,233	1,326	25,919
Tithe	-	-	20,518	20,518
Interest	9,937	628	89	10,654
Advertising	1,396	562	2,480	4,438
Other	47,773	5,738	1,669	55,180
Total expenses	$ 7,846,656	$ 704,166	$ 402,628	$ 8,953,450

The accompanying notes are an integral part of this statement.

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 1,042,496	$ 2,345,640
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	287,486	224,840
Noncash portion of lease expense from operating leases	220,890	-
Discounts on mortgages	(895,457)	(704,821)
Gain on disposal of assets	(1,179,130)	(3,100)
Changes in assets and liabilities		
Pledges receivable	(204,500)	(5,500)
Grants receivable	103,986	(4,469)
Accounts receivable - other	(119,930)	5,600
Inventory	(2,411,284)	(468,481)
Prepaid expenses and other assets	(94,800)	(35,594)
Accounts payable	(203,128)	160,203
Accrued expenses	(60,647)	31,022
Deferred revenue	(5,816)	8,819
Repayment of operating lease obligations	(213,830)	-
Tenant security deposits	3,994	8,684
Deposits and payments on houses awaiting closing	12,841	2,156
Net cash provided by operating activities	(3,716,829)	1,564,999
Cash flows from investing activities		
Purchase of certificates of deposit	(1,530,644)	-
Change in investment in NMTC	-	2
Changes in mortgage notes receivable - net of discounts	1,536,999	1,242,653
Proceeds form sale of property and equipment	1,716,840	-
Purchase of property and equipment	(101,599)	(2,128,067)
Transfer of land held for future use, net of purchase	(649,931)	733,011
Net cash provided (used) by investing activities	971,665	(152,401)
Cash flows from financing activities		
Proceeds from long-term debt	-	18,955
Repayments of long-term debt	(6,983)	(16,234)
Net cash (used) provided by financing activities	(6,983)	2,721
Net (decrease) increase in cash and cash equivalents	(2,752,147)	1,415,319
Cash and cash equivalents, beginning of year	8,137,531	6,722,212
Cash and cash equivalents, end of year	$ 5,385,384	$ 8,137,531

The accompanying notes are an integral part of this statement.

Habitat for Humanity of Jacksonville, Inc.
(a non-profit organization)
Consolidated Statements of Cash Flows
For the years ended June 30, 2023 and 2022

	2023	2022
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 9,780	$ 10,654
Noncash investing and financing activities:		
ROU lease assets acquired by operating lease obligation	$ (396,564)	$ -
Operating lease obligation assumed to acquire ROU lease assets	396,564	-
	$ -	$ -

The accompanying notes are an integral part of this statement.

1. Organization and Purpose

Habitat for Humanity of Jacksonville, Inc. (the Organization) was established March 28, 1988, to provide affordable housing for low-income families in the Jacksonville, Florida area who have demonstrated a housing need, have the ability to repay a mortgage, and have the willingness to volunteer 200 hours of their time to the project. These houses are constructed with the assistance of volunteer labor.

The Organization also operates two stores at which purchased and donated supplies, that are not designated for Organization homes, are sold.

Additionally, the Organization established Navaho-HRDC, LLC ("HRDC") a Florida single-member limited liability company (a disregarded entity for tax information return purposes), which commenced operations in November 2021. HRDC operates a fifty (50) unit tiny home facility, located in Jacksonville Florida. The HRDC provides low-income individuals with affordable rental housing opportunity.

2. Summary of Significant Accounting Policies

Basis of Consolidation
The consolidated financial statements include the Organization and its subsidiary, HRDC. All material inter-organizational transactions have been eliminated.

Basis of Accounting
The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below.

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

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

ReStore sales – To help fund the Organization's ability to provide affordable housing for low-income families the Organization operates two home improvement retail stores, which sells a wide assortment of building materials and home improvement products. The performance obligation is the delivery of the goods to the consumer. The transaction price is established by the Organization based on retail prices. As each item is individually priced, no allocation of the transaction price is necessary. The Organization recognizes revenue as the customer pays and takes possession of the merchandise. Some merchandise is sold with the right to return. If probable custom returns exist at the end of an accounting period, the Organization estimates and records in its consolidated financial statements as liability for such returns, which offsets revenue. No liability for probable customer returns was considered necessary as of June 30, 2023 and 2022.

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

Tiny Home rental income - The Organization recognizes revenue stream in rent charges for residential units under leases with duration of one year. The Organization records revenue for such leases at gross potential rentals prescribed by lease agreements. Subsidy revenue for low-income eligible tenants is provided under a Section 8 housing assistance payment contract. This contract requires tenants to contribute a portion of the contracted rent based on a formula. Subsidy income is considered part of the lease and is not considered a contribution under ASC 958.

Contributions

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

Donated Materials, Long-lived Assets, Facilities & Services

Donated land, buildings, equipment, investments, and other noncash donations are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use facilities are recorded as contributions in the period received at fair value. The Organization reports the donations as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying consolidated financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fundraising campaigns, the value of which is not recorded in the accompanying consolidated financial statements.

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

Cash and Cash Equivalents
For purposes of the Statements of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Restricted Cash
New Market Tax Credit restricted cash is funds set aside for new construction in process and operating expenses of the NMTC. The balance at June 30, 2023 and 2022 was $563 and $340, respectively.

Investment in New Market Tax Credits
In November 2017, the Organization invested in a New Market Tax Credit (NMTC) financial joint venture, HFHI NMTC Leverage Lender 2016-1, LLC, along with ten other Habitat affiliates, to take advantage of tax credit equity funding. The investment is accounted for using the equity method and the carrying amount of the investment is increased for the Organization's proportionate share of the joint venture's earnings and decreased for the Organization's proportionate share of the joint venture's losses and distributions.

Mortgage Notes Receivable
Prior to the year ended June 30, 2021, the Organization had a practice of selling some single-family homes, with interest free mortgages. Therefore, interest free mortgages receivable do not have a stated interest rate. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. The Organization does not maintain an allowance for uncollectible mortgages receivable because the houses are sold at or below market prices and the Organization has the ability to foreclose on properties and resell them to collect any past due amounts. All mortgages and contracts for deed are due based on the notes terms. Management believes all mortgages and contracts for deed receivable are realizable through either collection or foreclosure proceeds, if not collected.

Subsequent years after June 30, 2021, the Organization modified its practice of financing the sale of single-family homes. Generally, home sales are financed by unaffiliated financial institutions utilizing lending products developed for low to moderate income homebuyers.

Inventories
Inventories consist of construction supplies, homes, and ReStore inventory. The construction supplies and ReStore inventory are valued at the lower of cost or market. Cost is determined on the

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

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

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

Long-lived assets to be held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed following generally accepted accounting principles.

<u>Notes Payable</u>
Notes payable are recorded at their outstanding principal amounts.

<u>Leases</u>
The Organization is a lessee in multiple noncancelable operating leases. If the contract provides the Organization the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments. ROU assets for operating and finance leases are amortized on a straight-line basis over the lease term. For leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less or below the Organization's capitalization threshold, for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable.

Right-of-use assets and liabilities as of June 30, 2023 are presented as separate line items on the Organization's consolidated statements of financial position.

Income Taxes
The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, the Organization is not taxed on income derived from its exempt functions. However, the Organization is subject to tax on unrelated business income, which is generated from the Organization's investment income and other activities not related to their stated exempt purposes. The Organization had no deferred income tax assets or liabilities as of June 30, 2023 and 2022. The Organization is no longer subject to U.S. Federal income tax examinations by the tax authorities for years before June 30, 2020.

Valuation
To best reflect economic realities and comply with certain grant requirements, the selling price of new homes is at or below market prices.

Functional Classification of Expenses
The costs of providing affordable housing for low-income families and supporting services have been summarized on the Statement of Activities on a functional basis. Most expenses can be directly attributed to the program or supporting functions. Certain categories of expenses are attributed to more than one functional category. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses in this category include rent, office and premises, professional fees, insurance, vehicle expenses, special events, telephone and communications, salaries and wages, payroll taxes, and other expense. The consolidated financial statements report expenses by function in the consolidated Statements of Functional Expenses.

Compensated Absences
Employees of the Organization are entitled to paid vacation and sick days depending on job classification, length of service, and other factors. The Organization's policy is that employees may not roll over unused vacation days. Accordingly, compensated absences have not been accrued.

Date of Managements' Review
Subsequent events have been evaluated through November 1, 2023, the date these consolidated financial statements were available to be issued.

Accounting Pronouncement Adopted
Effective July 1, 2022, the Organization adopted the provisions of FASB ASC Topic 842 (ASU 2016-02), Leases. ASC 842 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated Statements of Financial Position upon the commencement of all leases, except for those with a lease term of twelve months or less or are below the Organization's capitalization threshold. Leases are classified as either

finance leases or operating leases. The standard was adopted under a transition method, as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classifications conclusions
- Carryover of historical initial direct cost balance for existing leases
- Accounting for lease and non-lease components in contracts in which the Organization is a lessee as a single lease component

In adopting the new lease standard, the Organization elected to use a transition method under which existing leases were measured and capitalized as of the date of adoption, July 1, 2022, in lieu of applying the standard retrospectively. Adoption of the leasing standards resulted in recognition of operating right-of-use assets of $396,564 and operating lease liabilities for $396,564 as of July 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using Organization's 2.75% incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense on the Organization's Statement of Financial Activities. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosure to the Organization's leasing activities are presented in Note 13.

3. Liquidity and Availability of Funds

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

	2023	2022
Cash	$ 5,384,821	$ 8,137,191
Pledges receivable	285,000	80,500
Grants receivable	-	103,986
Accounts receivable - other	150,426	30,496
Total financial assets at year end	$ 7,350,891	$ 8,352,173
Total financial assets available to meet general expenditures within the next 12 months	$ 7,350,891	$ 8,352,173

As part of the Organization's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities, and other obligations come due.

4. Investment in New Markets Tax Credit

In November 2017, the Organization invested along with 10 other Habitat affiliates, in a joint venture (HFHI NMTC Leverage Lender 2016-1, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside vendors, who will receive new market tax credits to be applied against their federal tax

liability. The Organization invested a combination of cash and construction in progress totaling $977,841 for a 4.53% ownership stake and securing a loan in the amount of $1,450,557 payable to HFHI NMTC SUB-CDEHHS. The result was the Organization receiving $845,172 to be used solely for the purpose of constructing and selling qualified housing projects to low-income residents.
The balance of the investment in HFHI NMTC Leverage Lender 2016-1, LLC is as follows:

	2023	2022
Balance, beginning of year	$ 977,836	$ 977,838
Share of income	9,780	9,778
Distributions	(9,780)	(9,780)
Balance, end of year	$ 977,836	$ 977,836

The NMTC has restricted cash in the amount received from loan proceeds, less the construction in process transferred. Restricted cash is to be used for new construction in process and operating expenses of the NMTC. The balance of restricted cash at June 30, 2023 and 2022 was $563 and $340, respectively.

5. Pledges and Grants Receivable

Unconditional promises to give or grants are recorded as receivables and revenue when received and earned. The Organization distinguishes between contributions and grants received for each net asset category in accordance with donor-imposed or grant restrictions. Management has determined that the pledges and grants receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2023 and 2022.

6. Mortgage Notes Receivable

Prior to the year ended June 30, 2022, the Organization provides financing on homes purchased over a 15 to 30 year period at no interest. Generally Accepted Accounting Principles (GAAP) require that contractual rights to receive money in the future be recorded at the present value of the consideration given in exchange.

The value of the house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments using an imputed interest rate. The difference between the face amount of the note and its present value is accounted for as a discount, recorded on the consolidated Statements of Financial Position reducing mortgage notes receivable, and amortized over the life of the note by the interest method. Present value is calculated using rates determined for the year the mortgage was executed. Rate used for the years ending June 30, 2023 and 2022 was 7.23%.

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

	2023	2022
Mortgage notes receivable	$ 17,609,249	$ 19,146,248
Less: Unamortized discount	(8,231,515)	(9,126,972)
	$ 9,377,734	$ 10,019,276

All notes are collateralized by a first mortgage lien on the real property sold. In the event of a default by the mortgagor, the property may be repossessed to satisfy any outstanding obligations. In addition, all mortgages are non-assumable without prior written approval of the Organization.

Since all houses are collateralized by a first mortgage lien and a high demand for affordable housing in the area, the Organization has made no allowance for uncollectible mortgages.

Periodically the Organization will sell mortgage receivables at a discount of face value.

Some mortgages sold to third parties obligate the Organization to swap out any of the mortgages sold if any become significantly in arrears.

As of June 30, 2023 and 2022, the Organization had 87 and 94, respectively delinquent loans, with approximate delinquent amounts of $288,000 and $327,000, respectively. The total principal balance for the delinquent mortgages as of June 30, 2023 and 2022 is approximately $2,759,000 and $3,515,000, respectively.

Mortgages totaling $5,501,406 are pledged as collateral on the line of credit at June 30, 2023.

7. Inventory

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

At June 30, 2023 and 2022, there were 5 and 1 completed but unclosed houses as well as 10 and 15 homes in process, respectively. There were 1 and 2 repurchased homes at June 30, 2023 and 2022 respectively. The detail of the inventory is as follows:

	2023	2022
Construction in progress	$ 3,232,583	$ 850,972
ReStore inventory	781,351	668,120
Repurchased homes	140,821	187,603
Construction supplies	27,843	64,619
	$ 4,182,598	$ 1,771,314

8. Property and Equipment

Major classes of property and equipment are as follows:

	Estimated Use Life	2023	2022
Land and buildings	5-40	$ 5,333,874	$ 6,391,383
Vehicles	5	253,699	263,098
Furniture and fixtures	7	249,047	249,047
Office equipment	3-7	232,761	243,777
Construction equipment	5-10	149,880	149,880
		6,219,261	7,297,185
Less accumulated depreciation		(907,458)	(1,261,785)
		$ 5,311,803	$ 6,035,400

9. Deposits and Payments on Houses Awaiting Closing

The Organization's practice of financing home sales through unaffiliated financial institutions served as lender to homebuyers. Down payment requirements are set by the lender in consultation with the Organization. The Organization also requires completion of defined volunteer hours prior to the sale of the home.

10. Line of Credit

The Organization has a line of credit with TIAA Bank, allowing for borrowings up to $4,000,000, subject to a borrowing base calculation, with interest at one-month LIBOR rate plus 2.5%, with a floor rate of 3.50% and a ceiling rate of 5.50%, currently at 5.5% at June 30, 2023, with interest payable monthly. The line of credit is collateralized by mortgage receivables and inventories of the Organization. At June 30, 2023, the Organization had not drawn on the line of credit and as of June 30, 2022, the Organization had drawn $0, on the line of credit.

11. Notes Payable

The Organization had the following notes payable at June 30, 2023 and 2022:

	2023	2022
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $442 beginning January 2020 and maturing December 2025.	$ 6,222	$ 11,526
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $130 beginning July 2019 and maturing June 2023.	-	660
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $260 beginning July 2019 and maturing June 2027.	4,440	7,560
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $135 beginning January 2023 and maturing January 2027.	6,500	6,500
Unsecured, non-interest bearing note payable to affiliate, payable in 48 monthly principal payments of $203 beginning January 2023 and maturing January 2027.	9,750	9,750
	26,912	35,996
Less current portion	(8,028)	(10,155)
Long-term portion	$ 18,884	$ 25,841

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

2024	$ 8,028
2025	5,616
2026	5,616
2027	5,598
2028	2,054
	$ 26,912

12. NMTC Loan Payable

As of June 30, 2023 and 2022 the Organization has a loan payable of $1,450,557 to HFHI NMTC SUD-CDE II, LLC as part of the New Market Tax Credit financing, net of unamortized loan cost of $65,511 and $68,215, respectively. The loan is a 30-year loan commencing November 2017. Interest is charged at a fixed annual rate of .674252% and paid semiannually. The note is interest only for 7 years. Principal payments are scheduled to begin May 2025. The loan has a put option feature, defined in an option agreement that is expected to be exercised in 2025, effectively removing the liability. The loan is secured by substantially all the assets acquired by the Organization from the proceeds.

Loan costs incurred with the loan were $80,836. Accumulated amortization at June 30, 2023 and 2022 was $15,325 and $12,621, respectively.

13. Lease

The Organization's leases consist several equipment lease and of retail buildings used in the operations of the Organization, with various terms under long-term non-cancelable operating lease agreements. The leases expire at various dates through 2024. The Organization includes in the determination of the right-of-use assets and lease obligations any renewal options when the options are reasonably certain to be exercised.

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. We have applied the risk-free rate option to the equipment and cart assets.

Reported under FASB ASC 842—year ended June 30, 2023:

A summary of total lease cost, by component, and other lease information for the year ended June 30, 2023 follows:

	2023
Operating lease cost	$ 199,988
Short-term lease cost	500,795
Total lease cost	$ 700,783

Other lease information

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	$ (222,054)
Non-cash transactions	
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 396,564
Weighted-average remaining lease term:	
Operating leases	0.83 years
Weighted-average discount rate:	
Operating leases	2.75%

A summary of future undiscounted lease payment for operating and finance leases, reconciled to the lease obligations recorded at June 30, 2023:

Year	Operating leases
2024	$ 185,045
Total undiscounted lease payments	185,045
Less effects of discounting	(2,311)
Present value of lease obligations	182,734
Less current portion	(182,734)
Long-term lease obligations	$ -

Reported under FASB ASC 840 – year ended June 30, 2022:

The Organization leases the space for one ReStore through August 2023 under an operating lease with monthly payments of $15,080, adjusted annually. A second ReStore is leasing space through April 2024 under an operating lease with monthly payments of $17,183 for 60 months and then $18,504 for 24 months. The Organization has various operating leases for office equipment and vehicles.

14. Concentrations of Credit Risk

Since the Organization's home sales are concentrated within one geographic location (Duval County) to individuals who may otherwise not qualify for home mortgage financing, there is a significant concentration of credit risk associated with the Organization's mortgage notes receivable. In an effort to minimize this risk, it is the Organization's policy to require credit reports and employment verifications on all potential homeowners. Additional protection is provided by the recorded first mortgage lien on the real property during the period the mortgage is outstanding and the non-assumable nature of the mortgage without prior written approval of the Organization. The risk is further addressed by the loans being carried at a significant discount as discussed in Note 4.

The Organization maintains its cash and cash equivalents in several financial institution accounts, which may, at times, exceed the federally insured limit of $250,000 set by the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held in such institutions. As of June 30, 2023, the uninsured portion of the balances was $3,674,400.

15. Affiliation

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

16. Retirement Plan

The Organization has a 401(k) retirement plan. The Organization matches 50% of the employee contributions up to 6%. An employee is vested after two years. The total employer contributions for June 30, 2023 and 2022 were $39,914 and $33,430, respectively.

17. Separate Cash Accounts

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

18. In-kind Donations

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

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

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

	2023	2022
ReStore inventory	$ 1,428,648	$ 1,535,102
Property and equipment	-	41,000
Miscellaneous	164,314	80,901
	$ 1,592,962	$ 1,657,003

19. Net Assets with Donor Restrictions

Although restricted contributions typically are reported as support that increases net assets with donor restrictions, they may be reported as support without donor restrictions if the restrictions are met in the same reporting period, the policy is followed consistently, and it is disclosed. Net assets with donor restrictions for the following purposes:

	2023	2022
Veterans Initiative	$ 150,000	$ -
Homeowner relief funds	3,524	13,700
	$ 153,524	$ 13,700

20. Net Assets Released from Restrictions

Net assets were released from donor restrictions during 2023 and 2022 by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Net assets released were donated by the following:

	2023	2022
Tiny Homes Project	$ -	$ 120,171
Homeowner relief funds	10,176	-
	$ 10,176	$ 120,171

21. Subsequent event

On August 11, 2023, the Organization entered a securitization agreement receiving $2.56M in exchange for $2.47M 0% interest loan secured by 22 homeowner mortgages. The loan is repayable in monthly installments over 28 years and is funded by remittance due on the homeowner mortgages.

RALSTON & COMPANY
certified public accountants

R. BRUCE SHEALY
KEVIN M. FRITZ
JON E. CORNAIRE
MICHAEL R. RITCH
GREGORY S. LACINA

ROBERT E. RALSTON
(1921 - 1986)

BERT J. PITTMAN, JR.
(1944 - 2019)

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of Jacksonville, Inc. (a non-profit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, 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 1, 2023.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Jacksonville, Inc.'s 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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

November 1, 2023