

**HELENA AREA HABITAT FOR
HUMANITY**

AUDITED FINANCIAL STATEMENTS

June 30, 2021 and 2020



**HELENA AREA HABITAT FOR HUMANITY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management
Helena Area Habitat for Humanity
Helena, MT

We have audited the accompanying financial statements of Helena Area Habitat for Humanity (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helena Area Habitat for Humanity as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2021, on our consideration of Helena Area Habitat for Humanity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Helena Area Habitat for Humanity's internal control over financial reporting and compliance.

Junkermier, Clark, Campanella, Stevens, P.C.

Great Falls, Montana

October 11, 2021

**HELENA AREA HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION**

	June 30	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 391,689	\$ 155,447
Reserved cash	2,189	12,036
Grants receivable	48,922	122,718
Mortgages receivable, current portion	7,898	7,976
Promises to give, current portion	15,708	14,412
Other receivable	3,612	11,318
Donated inventory	36,178	26,220
Purchased inventory	3,475	485
Homes under construction inventory	<u>1,715,372</u>	<u>1,151,108</u>
	<u>2,225,043</u>	<u>1,501,720</u>
 PROPERTY AND EQUIPMENT		
Construction in progress	583,372	404,372
Buildings and improvements	774,965	774,965
Vehicles	168,065	111,555
Furniture and fixtures	<u>37,815</u>	<u>35,578</u>
	1,564,217	1,326,470
Less accumulated depreciation	<u>(152,118)</u>	<u>(108,765)</u>
	<u>1,412,099</u>	<u>1,217,705</u>
 OTHER ASSETS		
Promises to give, net of current portion and discount	24,389	32,489
Mortgages receivable, net current portion	176,810	178,954
Unamortized mortgage discount	<u>(90,609)</u>	<u>(94,977)</u>
	<u>110,590</u>	<u>116,466</u>
Total assets	<u><u>\$ 3,747,732</u></u>	<u><u>\$ 2,835,891</u></u>

See notes to financial statements.

**HELENA AREA HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION**

	June 30	
	2021	2020
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 47,077	\$ 56,893
Accrued compensated absences	15,768	13,374
Accrued expenses	18,582	27,893
Escrow accounts	1,876	514
Funds held in trust	-	8,649
Lines of credit	1,262,078	246,104
Notes payable, current portion	116,448	114,633
	1,461,829	468,060
 LONG-TERM LIABILITIES		
Notes payable, net of current portions and loan fee amortization	551,579	1,006,889
Total liabilities	2,013,408	1,474,949
 NET ASSETS		
Without donor restrictions:		
Undesignated - available for general activities	1,127,464	818,913
Board designated - cash for capital campaign	17,389	-
Board designated - land for Habitat facility expansion	404,372	404,372
Board designated - land for a land trust	86,000	86,000
	1,635,225	1,309,285
With donor restrictions	99,099	51,657
Total net assets	1,734,324	1,360,942
Total liabilities and net assets	\$ 3,747,732	\$ 2,835,891

See notes to financial statements.

**HELENA AREA HABITAT FOR HUMANITY
STATEMENTS OF ACTIVITIES**

	Year Ended June 30, 2021		
	Without donor restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 497,364	\$ 16,000	\$ 513,364
Grant revenue	302,385	197,051	499,436
ReStore sales	312,993	-	312,993
Critical home repair income	1,800	-	1,800
Mortgage discount amortization	4,368	-	4,368
In-kind donations	38,346	-	38,346
Home sales	556,841	-	556,841
Rent	15,919	-	15,919
Miscellaneous	129,160	-	129,160
Net assets released from restrictions:			
Satisfaction of grant restrictions	142,581	(142,581)	-
Pledges Written Off	11,986	(11,986)	-
Pledges paid	11,042	(11,042)	-
	<u>2,024,785</u>	<u>47,442</u>	<u>2,072,227</u>
Total revenue and support			
EXPENSES			
Program expenses:			
ReStore	285,058	-	285,058
Construction and partner family costs	1,246,626	-	1,246,626
Supporting services:			
Fundraising	32,358	-	32,358
Management and general	134,803	-	134,803
	<u>1,698,845</u>	<u>-</u>	<u>1,698,845</u>
Total expenses			
CHANGE IN NET ASSETS	325,940	47,442	373,382
Net assets, beginning of year	<u>1,309,285</u>	<u>51,657</u>	<u>1,360,942</u>
NET ASSETS, END OF YEAR	<u>\$ 1,635,225</u>	<u>\$ 99,099</u>	<u>\$ 1,734,324</u>

See notes to financial statements.

**HELENA AREA HABITAT FOR HUMANITY
STATEMENTS OF ACTIVITIES**

	Year Ended June 30, 2020		
	Without donor restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 39,056	\$ 667	\$ 39,723
Grant revenue	571,080	151,000	722,080
ReStore sales	252,457	-	252,457
Critical home repair income	2,360	-	2,360
Mortgage discount amortization	13,176	-	13,176
In-kind donation	518	-	518
Home Sales	174,000	-	174,000
Rent	12,550	-	12,550
Loss on Disposal of Equipment	(1,984)	-	(1,984)
Miscellaneous	4,259	-	4,259
Net assets released from restrictions:			
Satisfaction of grant restrictions	147,539	(147,539)	-
Pledges paid	18,125	(18,125)	-
	<u>1,233,136</u>	<u>(13,997)</u>	<u>1,219,139</u>
Total revenue and support			
EXPENSES			
Program expenses:			
ReStore	271,284	-	271,284
Construction and partner family costs	722,109	-	722,109
Supporting services:			
Fundraising	6,670	-	6,670
Management and general	117,159	-	117,159
	<u>1,117,222</u>	<u>-</u>	<u>1,117,222</u>
Total expenses			
CHANGE IN NET ASSETS	115,914	(13,997)	101,917
Net assets, beginning of year	<u>1,193,371</u>	<u>65,654</u>	<u>1,259,025</u>
NET ASSETS, END OF YEAR	<u>\$ 1,309,285</u>	<u>\$ 51,657</u>	<u>\$ 1,360,942</u>

See notes to financial statements.

**HELENA AREA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2021**

	PROGRAM SERVICES			SUPPORT SERVICES			Total
	ReStore	Construction and Partner Family Costs	Program Services Total	Fundraising	Management and General	Support Services Total	
Salaries	\$ 154,787	\$ 323,097	\$ 477,884	\$ -	\$ 49,547	\$ 49,547	\$ 527,431
Payroll taxes and related benefits	24,506	58,758	83,264	-	7,420	7,420	90,684
Advertising costs	1,803	6,341	8,144	-	4,652	4,652	12,796
Bad Debt	-	1,470	1,470	11,988	-	11,988	13,458
Bank fees/credit card service fees	6,457	1,745	8,202	4,577	49	4,626	12,828
Campaign	-	-	-	15,793	-	15,793	15,793
Cost of homes sold	-	543,072	543,072	-	-	-	543,072
Depreciation	15,235	14,389	29,624	-	13,951	13,951	43,575
Direct construction costs	-	148,061	148,061	-	-	-	148,061
In-kind labor and services	-	28,228	28,228	-	161	161	28,389
Insurance	7,455	10,585	18,040	-	1,789	1,789	19,829
Interest	8,141	15,542	23,683	-	3,275	3,275	26,958
Lease	600	12,366	12,966	-	1,374	1,374	14,340
Maintenance	2,895	1,298	4,193	-	3,334	3,334	7,527
Miscellaneous	190	9,895	10,085	-	3,756	3,756	13,841
Organizational dues	-	-	-	-	5,000	5,000	5,000
Professional fees	-	28,502	28,502	-	60	60	28,562
Supplies	17,273	29,168	46,441	-	12,041	12,041	58,482
Taxes and licenses	2,286	6,864	9,150	-	4,920	4,920	14,070
Telephone	2,003	5,873	7,876	-	2,507	2,507	10,383
Travel and training	2,106	15,441	17,547	-	1,203	1,203	18,750
Utilities	7,336	2,114	9,450	-	4,560	4,560	14,010
Vehicle	6,306	23,183	29,489	-	1,517	1,517	31,006
Indirect cost allocation	25,679	(39,366)	(13,687)	-	13,687	13,687	-
Total expenses	\$ 285,058	\$ 1,246,626	\$ 1,531,684	\$ 32,358	\$ 134,803	\$ 167,161	\$ 1,698,845

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2020

	PROGRAM SERVICES			SUPPORT SERVICES			Total
	ReStore	Construction and Partner Family Costs	Program Services Total	Fundraising	Management and General	Support Services Total	
Salaries	\$ 115,884	\$ 289,875	\$ 405,759	\$ -	\$ 46,861	\$ 46,861	\$ 452,620
Payroll taxes and related benefits	22,899	61,343	84,242	-	9,191	9,191	93,433
Advertising costs	5,702	3,951	9,653	-	3,363	3,363	13,016
Bank fees/credit card service fees	5,842	-	5,842	1,735	1,107	2,842	8,684
Campaign	-	-	-	4,935	-	4,935	4,935
Cost of homes sold	-	174,665	174,665	-	-	-	174,665
Depreciation	14,682	12,220	26,902	-	8,929	8,929	35,831
Direct construction costs	-	69,608	69,608	-	905	905	70,513
In-kind labor and services	785	1,695	2,480	-	125	125	2,605
Insurance	6,357	9,536	15,893	-	2,883	2,883	18,776
Interest	8,983	16,860	25,843	-	4,236	4,236	30,079
Lease	600	11,547	12,147	-	2,634	2,634	14,781
Maintenance	171	281	452	-	511	511	963
Miscellaneous	17	5,382	5,399	-	4,238	4,238	9,637
Organizational dues	-	-	-	-	5,000	5,000	5,000
Professional fees	-	34,427	34,427	-	-	-	34,427
Supplies	51,739	35,835	87,574	-	4,481	4,481	92,055
Taxes and licenses	(1,581)	6,803	5,222	-	1,352	1,352	6,574
Telephone	1,509	5,717	7,226	-	1,432	1,432	8,658
Travel and training	1,764	13,482	15,246	-	2,276	2,276	17,522
Utilities	7,158	2,286	9,444	-	2,423	2,423	11,867
Vehicle	3,828	5,829	9,657	-	924	924	10,581
Indirect cost allocation	24,945	(39,233)	(14,288)	-	14,288	14,288	-
Total expenses	\$ 271,284	\$ 722,109	\$ 993,393	\$ 6,670	\$ 117,159	\$ 123,829	\$ 1,117,222

See notes to financial statements.

**HELENA AREA HABITAT FOR HUMANITY
STATEMENTS OF CASH FLOWS**

	Years ended June 30	
	2021	2020
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ 373,382	\$ 101,917
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	43,575	35,831
Donated inventory received	(9,958)	2,087
Loss on disposal of equipment	-	1,984
Mortgage discount amortization	(4,368)	(13,176)
Sale of partner homes	556,841	173,298
(Increase) decrease in:		
Grants receivable	73,796	(71,024)
Promises to give	6,804	17,099
Other receivable	7,706	5,952
Purchased inventory	(2,990)	1,883
Home construction in process	(1,121,105)	(811,878)
Increase (decrease) in:		
Accounts payable	(9,816)	11,934
Accrued compensated absences	2,394	(149)
Accrued expenses	(9,311)	(241)
Escrow accounts liability	1,362	(6,313)
Funds held in trust	(8,649)	(17,190)
Net cash used by operating activities	(100,337)	(567,986)
CASH FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(237,746)	(154,041)
Proceeds from disposal of property and equipment	-	106
Proceeds from notes receivable	2,222	12,622
Net cash used by investing activities	(235,524)	(141,313)
CASH FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	(246,104)	245,955
Principal payments on long-term debt	(650,511)	(18,956)
Proceeds from long-term debt	1,458,871	516,535
Net cash provided by financing activities	562,256	743,534
CHANGE IN CASH AND CASH EQUIVALENTS	226,395	34,235
Cash and cash equivalents, beginning of year	167,483	133,248
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 393,878	\$ 167,483
Cash and cash equivalents per statement of financial position:		
Cash and cash equivalents	\$ 391,689	\$ 155,447
Reserved cash	2,189	12,036
Cash and cash equivalents, end of year	\$ 393,878	\$ 167,483
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 26,338	\$ 29,890
Property and equipment acquired by debt	\$ -	\$ 113,628

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

Nature of Organization:

Helena Area Habitat for Humanity (a nonprofit organization) was incorporated in 1992. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International). Habitat is committed to construction and renovation of quality, simple, and decent homes in partnership with income challenged families in the greater Helena community. In addition to home construction, Habitat also operates the Repair and Preservation program as part of its broader community development strategy, the Neighborhood Revitalization Initiative. The Repair and Preservation program helps revitalize the appearance of neighborhoods, strengthen community connections while preserving the affordable housing stock in the Helena area. It is available to qualifying homeowners as funding is available.

Habitat operates a thrift store called ReStore to aide in supporting its mission. The Restore collects donated items that can be used to repair and furnish a home. The donations are inspected and prepared for sale in the store. Items that don't meet the standards for being sold in the store are recycled. A small portion of the stores inventory is purchased. Sales from the Restore are a significant part of Habitat's operations.

Basis of Accounting and Presentation:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Change in Prior Period Presentation:

Last year Habitat classified "homes under construction" as other assets in the Statements of Financial Position. Managements current year evaluation identified that this asset should be classified as a current asset as these assets are expected to be converted to cash within one year and presenting as a current asset better matches the financing source.

Accounting Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents:

For the purpose of the cash flow statement, management generally considers all checking and investment cash accounts with an original maturity of three months or less to be cash equivalents

Cash and cash equivalents are deposited at one financial institution and are potentially exposed to concentrations of custodial risk. Habitat's bank accounts are subject to \$250,000 coverage by the Federal Deposit Insurance Corporation (FDIC). From time to time, certain accounts that are subject to the limited FDIC limits may exceed their insured limits, At June 30, 2021, insurance limits were exceeded and 2020, insurance limits were not exceeded.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Reserved Cash:

Habitat services the mortgages on three homes it built or renovated. Included in reserved cash are amounts received from homeowners for insurance and property taxes (escrow funds). Escrow funds reserved cash at June 30, 2021 and 2020, was \$2,189 and \$915, respectively. Currently no new homes are accepted into this program.

Habitat constructs homes using funds obtained through the USDA Homeownership Direct Loan Program (Section 502). These funds are required to be held in a trust account on behalf of the partner families that build their home through this program. The use of these funds are restricted for direct construction costs by the program. Partner families are required to approve all expenses. Funds held in this trust account at June 30, 2021 and 2020 were zero and \$11,121, respectively.

Accounts Receivable:

Accounts receivable are stated at unpaid balances. Management considers receivables to be fully collectible, and no allowance for uncollectible receivables has been recorded. Bad debt expense for the years ended June 30, 2021 and 2020 were \$1,470 and zero respectively.

Fair Value of Financial Instruments:

Habitat determines the fair value of its financial instruments in accordance with GAAP, which requires that valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Habitat's policy for determining the timing of significant transfers between levels is at the end of the reporting period. No such transfers occurred in the years ended June 30, 2021 and 2020.

Habitat's financial instruments include mortgages receivable. The valuation methodology for these instruments is more fully described in Note 10.

Mortgage Receivables and Related Discount:

In pursuit of its mission, Habitat finances homes constructed under its program for partner families, with the homes securing the mortgages. In accordance with GAAP, these interest-free mortgages are discounted using a rate set annually by Habitat International. Each year, a portion of the outstanding mortgage discount is amortized and recognized as revenue to Habitat.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Habitat follows policies and procedures that are consistent with those of Habitat International to work with partner families who are past due on their payment obligations. These include late payment notices with information regarding credit counseling and the potential of foreclosure, imposition of late fees and entering into alternative payment arrangements. As a secured creditor, Habitat does not consider it necessary to provide an allowance for uncollectible balances.

Property and Equipment:

Habitat records purchased property and equipment at cost. Donated property and equipment is recorded at fair value on the date received. Depreciation expense for the years ended June 30, 2021 and 2020, was \$43,575 and \$35,831, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives or purchased over the \$1,500 capitalization threshold:

Building and improvements	5-39 years
Furniture, fixtures, and vehicles	5-20 years

Classification of Net Assets:

Contributions received are recorded as without donor restrictions and with donor restrictions depending on the existence and nature of any donor restrictions.

Habitat reports information regarding its financial position and activities according to two classes of net assets.

Net assets without donor restrictions - represents those amounts that are available for use in carrying out the mission of Habitat. Habitat's policy is to record contributions and grants as without donor restrictions when it is expected the contributions and grants will be expended in the same year. Management and the board of directors may at their discretion designate funds for a specific purpose.

Net assets with donor restrictions - represents those amounts that are donor restricted for specific purposes or dependent on the passage of time. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Other donor-imposed stipulations require that funds be maintained permanently by Habitat. Generally, the donors of these assets permit use of investment income for general or specific purposes.

Revenue from Contracts with Customers:

Revenue is earned from three types of contracts, grant administration, home sales, and ReStore. The length of the contracts varies but is typically less than one year. Revenue is recognized as follows.

Grant administration - revenue is recognized as the costs of administering the grant are incurred.

Home sales - revenue is recognized at a point in time when the family purchasing the home has meet all the requirements to purchase the home. Generally these requirements are met near closing of the home. Habitat has elected to use the closing of the home sale as the bench mark for recognizing revenue from the sale of the home.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

ReStore - revenue is recognized at the time of sale. If inventory sold is later found to be defective the policy is to offer replacement inventory of equal value to the original sale. Habitat does not have a reserve account for returned items.

Advertising Costs:

Advertising costs are expensed when incurred. Advertising expenses were \$12,796 and \$13,016 in 2021 and 2020, respectively.

Income Taxes:

Habitat is as a tax-exempt non-profit organization under Section 501(c)(3) of the Internal Revenue Code. As a result, no provision for income tax is included in the financial statements.

Homes Under Construction Inventory:

Land acquired for homes along with materials, labor, supplies, services and other costs are recorded as construction in progress and expensed at the time ownership of the property transfers.

Inventory:

Habitat accepts contributions of used building materials. These contributed materials are reflected as donated inventory in the statement of financial position. Purchased inventory is stated as the lower of cost or net realizable value utilizing the first-in, first-out (FIFO) method.

Functional Expenses:

Expenses have been allocated to program, fundraising, and general and administrative based on relative utilization in the statement of functional expenses. The 10% de minimis rate has been elected for allocating indirect costs across all areas of Habitat and are also reflected in the statement of functional expenses.

Promises to give:

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give that will be collected beyond one year are reported at the present value of the anticipated cash flows using the discount rate established at the date of the pledge. Conditional promises to give are recognized when the specified conditions are satisfied. Promises to give are reviewed periodically to determine their collectability and whether any promises should be charged off. At June 30, 2021 and 2020, substantially all promises to give are considered collectible thus no allowance has been recorded. Bad debt expense for the years ended June 30, 2021 and 2020 were \$11,988 and zero respectively.

Reclassifications:

Certain prior period year amounts have been reclassified to conform to current year presentation. The reclassification has no impact on previously reported net assets or changes in net assets.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

New Accounting Pronouncements:

During the year ended June 30, 2021, the Organization adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) as management believes the standards improve the usefulness and understandability of the Organization's financial reporting. The Organization's prior policy of revenue recognition agreed to the new standard and there was no change in previously reported net assets.

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Habitat implemented ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" including subsequent ASUs that amended and clarified the related guidance. The assessment of this standard indicated that because Habitat's previous revenue recognition model was closely aligned with the standard, the impact of adopting Topic 606 was immaterial and no major changes were required.

Habitat assists families that are financially stable purchase homes that would not qualify for financing on the open market. This is accomplished by participating in Rural Developments' Mutual Self-Help program and by leveraging the Habitat's assets to build homes and sell to the family at cost. The organization promotes volunteerism to help lower the costs of building homes. Families participating in the home ownership programs are required to meet volunteering and financial requirements to purchase a home. Habitat records cost associated with building homes as inventory until the home is sold. When the new homeowner assumes ownership of the home the sale and associated costs of building the home are recognized on the statement of activities. Costs associated with the acquisition, development of lots, and home builds that do not add to the value of the end product are expensed in the period incurred as direct construction costs.

Families that participate in Rural Developments' Mutual Self-Help program are awarded funds directly from Rural Development to build their home. Habitat acts as custodian of these funds on behalf of the participant. Habitat receives these funds directly from Rural Development and directly pays for the materials and labor used to construct the home. The timing of the participating family receiving approval and receiving financial assistance does not always coincide with best build times for the climate. From time-to-time Habitat will pay costs upfront after the family has been approved so the family can take advantage of good weather to build their home. Habitat is reimbursed for these costs when funds become available. The organization received federal funds for providing technical and supervisory assistance to families participating in the Rural Development Self-Help program. Revenue is recognized as costs are incurred.

Habitat operates a ReStore where most merchandise is donated. Donations are monetized by selling the item out right in the store or by recycling. Revenue is recognized at the time of sale. If an item sold in the store is found to be defective after the sale the purchaser is given opportunity to exchange for a similarly valued item.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

2. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Contract revenue by source:

	<u>2021</u>	<u>2020</u>
Revenue recognized at point in time		
Home sales	\$ 556,841	\$ 174,000
ReStore sales	<u>312,993</u>	<u>252,457</u>
	869,834	426,457
Sales recognized over time		
Grant income	<u>280,531</u>	<u>190,973</u>
Total contract income	<u>\$ 1,150,365</u>	<u>\$ 617,430</u>

Contract assets are as follows:

	<u>2021</u>	<u>2020</u>
Donated and purchased inventory (ReStore)	\$ 39,653	\$ 26,705
Homes under construction inventory	<u>1,715,372</u>	<u>1,151,108</u>
	<u>\$ 1,755,025</u>	<u>\$ 1,177,813</u>

There were 14 homes and 18 homes under construction in 2021 and 2020, respectively.

Beginning and ending contact balances are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Grants Receivable	\$ 48,922	\$ 122,718	\$ 51,694
Contract Assets	<u>\$ 1,755,025</u>	<u>\$ 1,177,813</u>	<u>\$ 543,203</u>

3. AVAILABILITY AND LIQUIDITY

Management has identified the following assets as available for general operations at June 30:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 391,689	\$ 155,447
Mortgages receivable, current	7,898	7,976
Promises to give current	15,708	14,412
Other receivables	3,612	11,318
Inventory, donated and purchased	<u>39,653</u>	<u>26,705</u>
	458,560	215,858
Less amounts not available for use within one year:		
Cash net assets designated by the Board of Directors	<u>17,389</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months.	<u>\$ 441,171</u>	<u>\$ 215,858</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

3. AVAILABILITY AND LIQUIDITY (Continued)

Financial assets available for general expenditure include those without donor or other restrictions limiting their use within one year of the balance sheet date. In addition, Habitat receives contributions restricted by donors and grantors, and considers those restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

Cash balances are routinely monitored in light of projected cash needs and excess balances are transferred to a savings account, where they are managed to provide for short-term liquidity and to grow the fund's value over time.

Habitat has lines of credit that are available and could be accessed for unanticipated needs or in the event of cash flow shortages. The lines of credit are described in Note 7.

4. FUNDS HELD AT THE MONTANA COMMUNITY FOUNDATION

The Montana Community Foundation held \$86,955 and \$42,975 as of June 30, 2021 and 2020, respectively, on behalf of Habitat. The Montana Community Foundation has been granted variance power over these assets. Accordingly, these are assets of the Montana Community Foundation whose earnings are to be used to support Habitat and are reported by Habitat as contribution revenue when received. The assets are not included in the accompanying financial statements. For the years ended June 30, 2021 and 2020, Habitat did not receive any distributed earnings for those years.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	2021	2020
Grants awarded for construction of homes or projects	\$ 40,775	\$ 3,853
Promises to give	58,324	47,804
Total	\$ 99,099	\$ 51,657

Net assets released from restriction for the following purposes at June 30:

	2021	2020
Grants awarded for construction of homes or projects	\$ 142,581	\$ 147,539
Promises to give	23,029	18,125
Total	\$ 165,610	\$ 165,664

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

6. LONG-TERM DEBT

Habitat had long- term debt at June 30, 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
Note payable to Valley Bank, due in monthly installments of \$1,339, including interest of 4.375% per annum through August 2036; secured by real estate property.	\$ 176,763	\$ 184,693
Note payable to Valley Bank, due in monthly installments of \$1,798, including interest of 5.250% per annum through March 2044; secured by real estate property.	285,769	292,011
Note payable to Montana Board of Housing, due in monthly installments of \$528, including interest of 2% per annum through July 2047; secured by real estate property.	-	131,788
Note payable to Valley Bank, due in monthly installments. This is a construction loan secured by real estate property. The terms of the loan have not been set yet.	-	307,907
Note payable to Montana Board of Housing, due in monthly installments of \$429, including interest of 2% per annum through August 2049; secured by real estate property.	110,485	113,628
Note payable to First Security Bank, interest due in monthly installments beginning October 2020, interest rate of 1%, principal balance due April 2022. This loan was made under the Paycheck Protection Program which allows for the loan to be forgiven. The loan was forgiven during the year and was recognized as miscellaneous income.	-	95,000
Note payable to Ascent Bank, interest due in a lump sum payment in March 2026, interest rate of 1%. This loan was made under the Paycheck Protection Program which allows for the loan to be forgiven. Management expects the loan to be forgiven within the next 12 months.	<u>98,292</u>	<u>-</u>
	671,309	1,125,027
Less: unamortized debt issuance costs	<u>(3,282)</u>	<u>(3,505)</u>
	668,027	1,121,522
Less: current portion	<u>(116,448)</u>	<u>(114,633)</u>
	<u>\$ 551,579</u>	<u>\$ 1,006,889</u>

Amortization of the debt issuance costs is reported as interest expense in the statements of activities.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

6. LONG-TERM DEBT (Continued)

Amortization of the debt issuance costs is reported as interest expense in the statements of activities.

Future maturities of the long-term debt are as follows:

2022	\$ 116,448	
2023	18,956	
2024	19,732	
2025	20,599	
2026	21,523	
Thereafter	<u>474,051</u>	
		<u>\$ 671,309</u>

7. LINE OF CREDIT

Habitat's lines of credit are as follows:

	<u>2021</u>	<u>2020</u>
Valley Bank Line of credit with \$100,250 limit and 6.00% interest rate. Expires August 2020.	\$ -	\$ 72,200
Valley Bank line of credit with \$191,067 limit and 4.25% interest rate. Expires April 2021.	-	173,904
Altana Federal Credit Union with \$644,000 limit and 4.00% interest rate. Expires July 2021.	528,083	-
Ascent Bank with \$736,000 limit and 4.50% interest rate. Expires July 2022. Management expects this account be be paid in full within the next year.	<u>733,995</u>	<u>-</u>
Total	<u>\$ 1,262,078</u>	<u>\$ 246,104</u>

8. RELATED PARTY TRANSACTIONS

Habitat interacts with Habitat International in various financial transactions. Habitat tithes a portion of certain general cash contributions to Habitat International for use in global operations. For the years ended June 30, 2021 and 2020, Habitat's tithing expenses were \$5,000 and \$5,000 respectively.

During the years ended June 30, 2021 and 2020, Habitat received contributions of \$6,690 and \$13,296, respectively, from various board members.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

9. CONTRIBUTED SERVICES

Contributed service revenue results under GAAP when contributions create or enhance non financial assets or when specialized skills are provided by individuals possessing those skills that would typically need to be purchased if not provided by contribution. For the years ended June 30, 2021 and 2020, Habitat's contributed service revenues were \$38,346 and \$518, respectively.

Individuals and organizations contributed 1,574 and 7,040 hours to assist in the construction of partner homes during the years ended June 30, 2021 and 2020. These in-kind contributions do not meet GAAP standards for recognition and therefore are not included in the financial statements.

10. MORTGAGES RECEIVABLE, DISCOUNT AND SUPPLEMENTAL MORTGAGES

When Habitat transfers ownership of a home to a partner family, Habitat may finance the purchase by a partner family at the home's appraised value, or may assist the family in applying for a traditional mortgage with a local financial institution. The first mortgage is a note for the cost of building the home with payments due monthly. The terms of the first mortgage vary depending on the amount of the mortgage and the partner family's ability to pay and are secured by the home and land. Mortgages held by Habitat are interest free and currently have terms ranging from 4 to 35 years with the longest mortgage maturing in October 2054. Monthly payments range from \$375 to \$600.

The first mortgages held by Habitat are valued in the financial statements at fair value. Fair value is determined annually by discounting the face amount of the mortgage using the rate established by Habitat International at the time of the mortgage origination (level 2 input). Discount rates are established each year for sales that occur in that fiscal year. The discount is amortized over the life of each mortgage individually.

To provide assistance to families in keeping monthly payments within a required percentage of income, Habitat often takes a second mortgage on a family property at the time of closing, whether the mortgage is held by Habitat or another lender. The second mortgage serves to fill the gap between the appraised value of the home and the first mortgage balance as determined based on the family's ability to pay. Some second mortgages are forgiven over time.

Second mortgages come due for payment in full if a home is sold prior to forgiveness, default, transfer of title, refinancing of the first mortgage by a third-party lender (if a Habitat-financed mortgage), or payment of the first mortgage in full. Second mortgages are reported as in-kind partner family assistance grants and are considered a program expense by Habitat. For the year ended June 30, 2021, Habitat did not provide in-kind partner family grants. For the year ended June 30, 2020, Habitat, did not provide in-kind partner family grants.

None of these supplemental mortgages are reported in the financial statements because collection is uncertain and no estimate of future payments is available. At June 30, 2021 and 2020, Habitat held second mortgages on three properties for both years.

In accordance with its policies, no provision for loan losses has been provided because Habitat is a secured creditor and the fair value of the homes exceeds that of the related mortgage note balances.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

10. MORTGAGES RECEIVABLE, DISCOUNT AND SUPPLEMENTAL MORTGAGES
(Continued)

The following schedule summarizes the payment status of mortgages receivable at June 30:

	<u>2021</u>		<u>2020</u>	
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Number of Loans</u>	<u>Loan Amount</u>
Current	3	\$ 184,708	2	\$ 73,702
30 days past due	0	-	0	-
31-60 days past due	0	-	0	-
More than 60 days past due	0	-	1	113,228
	<u>3</u>	<u>\$ 184,708</u>	<u>3</u>	<u>\$ 186,930</u>

The following summarizes the activity in the mortgage accounts for the year ended June 30:

	<u>Due 1 Year</u>	<u>Due 2-25 Years</u>	<u>Discount</u>	<u>Fair Value</u>
	Beginning balance July 1, 2020	\$ 7,976	\$ 178,954	\$ (94,977)
Payments received	(2,222)	-	-	(2,222)
transfer to current	2,144	(2,144)	-	-
Loan delinquency forgiven	-	-	-	-
Discount amortized	-	-	4,368	4,368
Ending balance June 30, 2021	<u>\$ 7,898</u>	<u>\$ 176,810</u>	<u>\$ (90,609)</u>	<u>\$ 94,099</u>

	<u>Due 1 Year</u>	<u>Due 2-26 Years</u>	<u>Discount</u>	<u>Fair Value</u>
	Beginning balance July 1, 2019	\$ 13,911	\$ 185,641	\$ (108,153)
Payments received	(12,622)	-	-	(12,622)
transfer to current	6,687	(6,687)	-	-
Loan delinquency forgiven	-	-	-	-
Discount amortized	-	-	13,176	13,176
Ending balance June 30, 2020	<u>\$ 7,976</u>	<u>\$ 178,954</u>	<u>\$ (94,977)</u>	<u>\$ 91,953</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

11. PROMISES TO GIVE

Unconditional promises to give are as follows:

	2021	2020
Unconditional promises to give before amortized discount	\$ 40,775	\$ 47,804
Less: amortized discount	(678)	(903)
Net unconditional promises to give	40,097	46,901
Less: current portion	(15,708)	(14,412)
Long-term	\$ 24,389	\$ 32,489
Amounts due in:		
2022	\$ 15,708	
2023	13,378	
2024	7,897	
2025	2,141	
2026	973	
Total	\$ 40,097	

The discount rate used was 1.38% at June 30, 2021 and 2020.

Habitat was awarded a federal grant from Rural Development in the amount of \$389,004 in April 2018 to assist twelve homeowners in Lewis and Clark County through Habitat's Self-Help program. This grant was extended by \$55,848 added for a total of \$444,852. This grant is considered a conditional promise to give. Revenue is recognized when grant conditions are met, by incurring allowable expenditures for the specified purpose and in compliance with all grant conditions, within the two year grant period. At June 30, 2021 and 2020, approximately \$409,422 and \$360,500, respectively, of the grant had been earned. At June 30, 2021 and 2020 \$35,430 and \$84,352, respectively, were available to be expended.

12. ADMINISTRATION OF SECTION 523, MUTUAL SELF-HELP PROGRAM, INCLUDING SECTION 502 LOANS

As part of the duties of administering the Section 523, Mutual Self-Help Program, Helena Area Habitat for Humanity manages a custodial bank account for all participants from which each individual participant's construction costs are paid and into which loan proceeds are deposited. Each individual participant's construction costs and loan balances are maintained outside of Helena Area Habitat for Humanity's books. However, the total of the custodial account is included on the balance sheet of Helena Area Habitat for Humanity as reserved cash offset by the trust fund liability. Helena Area Habitat for Humanity's personnel prepare the checks, which can be written only for construction-related costs and require the signatures of two authorized representatives of the organization. All invoices are reviewed and approved by the construction supervisor and program manager, who also assign the expense to the applicable house. At monthly meetings between the construction supervisor, the program manager/502 bookkeeper and the participating borrowers, each participant's construction expenses and loan draws are reviewed with them individually. As part of our audit, the files for two participants were examined (total participants for the year were eleven) and reviewed in detail. The bank reconciliation and disbursements were tested for propriety. Selected draw requests were traced from the request to the bank deposit. Selected checks were traced to supporting documents. We found no exceptions to the compliance requirement.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2021 and 2020

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 11, 2021, the date on which the financial statements were available to be issued.

Opened a new line of credit for the next home build project.

Sold three homes in July 2021 for \$560,757. A portion of the proceeds was used to paydown an existing line of credit.

Put down earnest money of \$50,000 for a new plot of land that is expected to provide lots to build an additional eight homes.

Paycheck Protection Program (PPP) loan of \$98,292 was forgiven September 9, 2021.



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

To the Board of Directors
Helena Area Habitat for Humanity
Helena, MT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Helena Area Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2021.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Junkermier, Clark, Campanella, Stevens, P.C.

Great Falls, Montana

October 11, 2021

**HELENA AREA HABITAT FOR HUMANITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2021**

The following is a schedule of findings and other matters which arose during the audit for the year ended June 30, 2021:

None.

The following is a schedule of findings and the implementation status of those findings which arose during the audit for the year ending June 30, 2020:

2020-001 Land Held for Home Construction

Condition and Criteria:

Land being held by the organization was recorded as an expense in unrecovered construction costs. Assets should be recorded and held on the statement of financial position until they are used or disposed.

Recommendation:

Review new or unusual transactions closely to determine how they should be reported and disclosed.

Status:

Resolved

2020-2 and 2019-001 Bank Reconciliations

Condition and Criteria:

Bank reconciliations are not reviewed on a regular basis. Procedures should be in place to ensure the bank statement is reviewed and approved by a member of management who did not prepare the reconciliation.

Recommendation:

Bank reconciliations should be reviewed monthly.

Status:

Resolved