

**HELENA AREA HABITAT FOR
HUMANITY**

AUDITED FINANCIAL STATEMENTS

June 30, 2020 and 2019



**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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

The financial statements of Helena Area Habitat for Humanity as of June 30, 2019, were audited by other auditors whose report dated November 13, 2019, expressed an unmodified opinion on those statements.

Report Issued in accordance with Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2020, 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 12, 2020

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

	June 30	
	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 155,447	\$ 100,582
Reserved cash	12,036	32,666
Grants receivable	122,718	51,694
Mortgages receivable, current portion	7,976	13,911
Promises to give, current portion	14,412	18,538
Other receivable	11,318	17,270
Donated inventory	26,220	28,307
Purchased inventory	485	2,368
	<u>350,612</u>	<u>265,336</u>
 PROPERTY AND EQUIPMENT		
Construction in progress	404,372	404,372
Buildings and improvements	774,965	656,998
Vehicles	111,555	84,766
Furniture and fixtures	35,578	30,481
	<u>1,326,470</u>	<u>1,176,617</u>
Less accumulated depreciation	(108,765)	(75,255)
	<u>1,217,705</u>	<u>1,101,362</u>
 OTHER ASSETS		
Homes under construction	1,151,108	512,528
Promises to give, net of current portion and discount	32,489	45,462
Mortgages receivable, net current portion	178,954	185,641
Unamortized mortgage discount	(94,977)	(108,153)
	<u>1,267,574</u>	<u>635,478</u>
Total assets	<u>\$ 2,835,891</u>	<u>\$ 2,002,176</u>

See notes to financial statements.

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

	June 30	
	2020	2019
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 56,893	\$ 44,959
Accrued compensated absences	13,374	13,523
Accrued expenses	27,893	28,134
Escrow accounts	514	6,827
Funds held in trust	8,649	25,839
Line of credit	246,104	149
Notes payable, current portion	114,633	17,435
	468,060	136,866
 LONG-TERM LIABILITIES		
Notes payable, net of current portions and loan fee amortization	1,006,889	606,285
Total liabilities	1,474,949	743,151
 NET ASSETS		
Without donor restrictions	1,309,285	1,193,371
With donor restrictions	51,657	65,654
Total net assets	1,360,942	1,259,025
Total liabilities and net assets	\$ 2,835,891	\$ 2,002,176

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 donations	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	445,949	-	445,949
Construction and partner family costs	547,444	-	547,444
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
STATEMENTS OF ACTIVITIES**

	Year Ended June 30, 2019		
	Without donor restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 51,601	\$ 29,183	\$ 80,784
Grant revenue	696,117	5,000	701,117
ReStore sales	279,516	-	279,516
Critical home repair income	7,758	-	7,758
Mortgage discount amortization	6,036	-	6,036
In-kind donation	43,243	-	43,243
Miscellaneous	4,591	-	4,591
Recapture of second mortgages	47,210	-	47,210
Net assets released from restrictions:			
Satisfaction of grant restrictions	4,608	(4,608)	-
Pledges paid	15,079	(15,079)	-
	<u>1,155,759</u>	<u>14,496</u>	<u>1,170,255</u>
Total revenue and support			
EXPENSES			
Program expenses:			
ReStore	253,077	-	253,077
Construction and partner family costs	405,058	-	405,058
Supporting services:			
Fundraising	10,835	-	10,835
Management and general	77,096	-	77,096
	<u>746,066</u>	<u>-</u>	<u>746,066</u>
Total expenses			
CHANGE IN NET ASSETS	409,693	14,496	424,189
Net assets, beginning of year	<u>783,678</u>	<u>51,158</u>	<u>834,836</u>
NET ASSETS, END OF YEAR	<u>\$ 1,193,371</u>	<u>\$ 65,654</u>	<u>\$ 1,259,025</u>

See notes to financial statements.

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

	<u>PROGRAM SERVICES</u>			<u>SUPPORT SERVICES</u>			<u>Total</u>
	<u>ReStore</u>	<u>Construction and Partner Family Costs</u>	<u>Program Services Total</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Support Services Total</u>	
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
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
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
Printing and publicity	5,702	3,951	9,653	-	3,363	3,363	13,016
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
Unrecovered construction costs	-	69,608	69,608	-	905	905	70,513
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	<u>\$ 445,949</u>	<u>\$ 547,444</u>	<u>\$ 993,393</u>	<u>\$ 6,670</u>	<u>\$ 117,159</u>	<u>\$ 123,829</u>	<u>\$ 1,117,222</u>

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2019

	<u>PROGRAM SERVICES</u>			<u>SUPPORT SERVICES</u>			<u>Total</u>
	<u>ReStore</u>	<u>Construction and Partner Family Costs</u>	<u>Program Services Total</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Support Services Total</u>	
Salaries	\$ 114,323	\$ 240,510	\$ 354,833	\$ -	\$ 28,688	\$ 28,688	\$ 383,521
Payroll taxes and related benefits	31,032	42,243	73,275	-	5,562	5,562	78,837
Bank fees/credit card service fees	6,959	2,985	9,944	1,703	999	2,702	12,646
Campaign	-	-	-	9,132	-	9,132	9,132
Depreciation	14,873	7,062	21,935	-	3,534	3,534	25,469
In-kind labor and services	13	14,813	14,826	-	110	110	14,936
Insurance	6,995	7,816	14,811	-	-	-	14,811
Interest	7,709	3,996	11,705	-	812	812	12,517
Lease	600	8,822	9,422	-	2,483	2,483	11,905
Maintenance	988	-	988	-	50	50	1,038
Miscellaneous	39	28,670	28,709	-	3,445	3,445	32,154
Organizational dues	-	-	-	-	3,500	3,500	3,500
Printing and publicity	5,038	6,640	11,678	-	3,803	3,803	15,481
Professional fees	-	24,116	24,116	-	-	-	24,116
Supplies	18,384	31,986	50,370	-	6,200	6,200	56,570
Taxes and licenses	5,725	-	5,725	-	(692)	(692)	5,033
Telephone	1,353	5,887	7,240	-	-	-	7,240
Travel and training	390	8,713	9,103	-	8,343	8,343	17,446
Utilities	7,649	2,651	10,300	-	-	-	10,300
Unrecovered construction costs	261	(7,316)	(7,055)	-	-	-	(7,055)
Vehicle	7,646	8,470	16,116	-	353	353	16,469
Indirect cost allocation	23,100	(33,006)	(9,906)	-	9,906	9,906	-
Total expenses	\$ 253,077	\$ 405,058	\$ 658,135	\$ 10,835	\$ 77,096	\$ 87,931	\$ 746,066

See notes to financial statements.

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

	Years ended June 30	
	2020	2019
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ 101,917	\$ 424,189
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	35,831	25,246
Mortgage forgiveness	-	14,237
Donated inventory received	2,087	(28,307)
Loss on disposal of equipment	1,984	-
Mortgage discount amortization	(13,176)	(6,036)
Proceeds for completed partner homes	173,298	292,379
(Increase) decrease in:		
Grants receivable	(71,024)	(51,694)
Escrow payment receivable	-	4,456
Promises to give	17,099	(14,293)
Other receivable	5,952	(7,273)
Purchased inventory	1,883	(2,368)
Home construction in process	(811,878)	(426,812)
Increase (decrease) in:		
Accounts payable	11,934	13,349
Accrued compensated absences	(149)	2,689
Accrued expenses	(241)	22,023
Escrow accounts liability	(6,313)	5,785
Funds held in trust	(17,190)	25,839
Net cash provided (used) by operating activities	<u>(567,986)</u>	<u>293,409</u>
CASH FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(154,041)	(649,891)
Proceeds from disposal of property and equipment	106	-
Proceeds from notes receivable	12,622	12,215
Net cash used by investing activities	<u>(141,313)</u>	<u>(637,676)</u>
CASH FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	245,955	149
Principal payments on long-term debt	(18,956)	(38,968)
Proceeds from long-term debt	516,535	466,483
Net cash provided by financing activities	<u>743,534</u>	<u>427,664</u>
CHANGE IN CASH AND CASH EQUIVALENTS	34,235	83,397
Cash and cash equivalents, beginning of year	<u>133,248</u>	<u>49,851</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 167,483</u>	<u>\$ 133,248</u>
Cash and cash equivalents per statement of financial position:		
Cash and cash equivalents	\$ 155,447	\$ 100,582
Reserved cash	12,036	32,666
Cash and cash equivalents, end of year	<u>\$ 167,483</u>	<u>\$ 133,248</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 29,890	\$ 12,234
Property and equipment acquired by debt	<u>\$ 113,628</u>	<u>\$ 436,048</u>

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

Nature of Organization:

Helena Area Habitat for Humanity (Habitat) (a nonprofit organization) was incorporated in 1992. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International). Habitat commits 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, dependent on the availability of funding.

Habitat also operates the ReStore. The mission of the ReStore is to support Habitat's construction of homes through the collection and sale of new and used building materials. Habitat receives a significant portion of its annual support from the ReStore sales.

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.

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, 2020 and 2019, Habitat had no uninsured cash balances.

Reserved Cash:

Habitat currently services the mortgages on some of the homes it builds or renovates. Included in reserved cash are amounts received from homeowners for insurance and property taxes (escrow funds). Escrow funds reserved cash at June 30, 2020 and 2019, was \$915 and \$6,827, respectively. Habitat is currently constructing homes using funds obtained through the USDA Homeownership Direct Loan Program (Section 502). These funds are required to be held in a trust account and are restricted for direct construction costs under the Self-Help program. Partner families approve all expenses made from the account. Trust funds reserved at June 30, 2020 and 2019 were \$11,121 and \$25,839, respectively.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

Accounts Receivable:

Accounts receivable are stated at unpaid balances. Management considers other receivables fully collectible, and thus, no allowance for uncollectible receivables has been recorded.

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, 2020 and 2019.

Habitat's financial instruments include mortgages receivable. The valuation methodology for these instruments is more fully described in Note 9.

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.

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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

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, 2020 and 2019, was \$35,831 and \$25,469, 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.

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.

Advertising Costs:

Advertising costs are expensed when incurred. Advertising expenses were \$13,016 and \$15,481 in 2020 and 2019, 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:

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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)

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.

ReStore Sales:

Sales revenue from ReStore is reported net of discounts and estimated returns.

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, 2020 and 2019, substantially all promises to give are considered collectible thus no allowance has been recorded.

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.

New Accounting Pronouncements:

During the year ended June 30, 2020, the Organization adopted FASB Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). The Organization's prior policy of revenue recognition agreed to the new standards and there was no change in previously reported net assets.

2. AVAILABILITY AND LIQUIDITY

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 155,447	\$ 100,582
Mortgages receivable, current	7,976	13,911
Promises to give current	14,412	18,538
Other receivables	11,318	17,270
Inventory, donated and purchased	<u>26,705</u>	<u>30,675</u>
	<u>\$ 215,858</u>	<u>\$ 180,976</u>

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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

2. AVAILABILITY AND LIQUIDITY (Continued)

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 funds value over time.

Habitat has a line of credit that is available and could be accessed for unanticipated needs or in the event of cash flow shortages. The line of credit has a \$72,200 and \$149 outstanding balance as of June 30, 2020 and 2019, respectively. The available line of credit of is \$100,250 June 30, 2020.

3. FUNDS HELD AT THE MONTANA COMMUNITY FOUNDATION

The Montana Community Foundation held \$42,975 and \$40,496 as of June 30, 2020 and 2019, 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, 2020 and 2019, Habitat did not receive any distributed earnings for those years.

4. NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Grants awarded for construction of homes or projects	\$ 3,853	\$ 392
Promises to give	47,804	65,262
Total	\$ 51,657	\$ 65,654

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

	2020	2019
Grants awarded for construction of homes or projects	\$ 147,539	\$ 4,608
Promises to give	18,125	15,079
Total	\$ 165,664	\$ 19,687

5. LONG-TERM DEBT

Habitat had long- term debt at June 30, 2020 and 2019 as follows:

	2020	2019
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.	\$ 184,693	\$ 193,132
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.	292,011	298,569

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

5. LONG-TERM DEBT (Continued)

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	\$	135,747
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.		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. Management expects the loan to be forgiven within the next 12 months.		<u>95,000</u>		<u>-</u>
		1,125,027		627,448
Less: unamortized debt issuance costs		<u>(3,505)</u>		<u>(3,728)</u>
		1,121,522		623,720
Less: current portion		<u>(114,633)</u>		<u>(17,435)</u>
		<u>\$ 1,006,889</u>		<u>\$ 606,285</u>

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:

2021	\$	114,633		
2022		21,957		
2023		22,833		
2024		23,688		
2025		24,635		
Thereafter		<u>917,281</u>		
				<u>\$ 1,125,027</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

6. LINE OF CREDIT

Habitat has a line of credit with Valley Bank for a maximum of \$100,250 with interest at 6%, an increase from \$50,000 limit in 2019. The line of credit expires in August 2020 and has been renewed. The outstanding balance was \$72,200 and \$149 at June 30, 2020 and 2019, respectively.

Habitat has a construction line of credit with Valley Bank effective April 2020 for a maximum of \$191,067 with interest at 4.25%. The line of credit expires April 2021. The outstanding balance was \$173,904 and zero at June 30, 2020 and 2019, respectively.

7. 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, 2020 and 2019, Habitat's tithing expenses were \$5,000 and \$3,500 respectively.

During the years ended June 30, 2020 and 2019, Habitat received contributions of \$13,296 and \$8,575, respectively, from various board members.

8. 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, 2020 and 2019, Habitat's contributed service revenues were \$518 and \$6,199, respectively.

Individuals and organizations contributed 7,040 and 6,598 hours to assist in the construction of partner homes during the years ended June 30, 2020 and 2019. These in-kind contributions do not meet GAAP standards for recognition and therefore are not included in the financial statements.

9. 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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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

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, 2020, Habitat did not provide in-kind partner family grants. For the year ended June 30, 2019, 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, 2020 and 2019, Habitat held second mortgages on three and five properties, respectively.

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.

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

	2020		2019	
	Number of Loans	Loan Amount	Number of Loans	Loam Amount
Current	2	\$ 73,702	5	\$ 199,552
30 days past due	0	-	0	-
31-60 days past due	0	-	0	-
More than 60 days past due	1	113,228	0	-
	<u>3</u>	<u>\$ 186,930</u>	<u>5</u>	<u>\$ 199,552</u>

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

	Due 1 Year	Due 2-25 Years	Discount	Fair Value
	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>

	Due 1 Year	Due 2-26 Years	Discount	Fair Value
	Beginning balance July 1, 2018	\$ 12,800	\$ 213,204	\$ (114,189)
Payments received	(12,215)	-	-	(12,215)
transfer to current	13,326	(13,326)	-	-
Loan delinquency forgiven	-	(14,237)	-	(14,237)
Discount amortized	-	-	6,036	6,036
Ending balance June 30, 2019	<u>\$ 13,911</u>	<u>\$ 185,641</u>	<u>\$ (108,153)</u>	<u>\$ 91,399</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

10. PROMISES TO GIVE

Unconditional promises to give are as follows:

	2020	2019
Unconditional promises to give before amortized discount	\$ 47,804	\$ 65,263
Less: amortized discount	(903)	(1,263)
Net unconditional promises to give	46,901	64,000
Less: current portion	(14,412)	(18,538)
Long-term	<u>\$ 32,489</u>	<u>\$ 45,462</u>
Amounts due in:		
2021	\$ 14,412	
2022	12,770	
2023	11,384	
2024	7,314	
2025	1,021	
Total	<u>\$ 46,901</u>	

The discount rate used was 1.38% at June 30, 2020 and 2019.

Habitat was awarded a federal grant from Rural Development in the amount of \$389,004 in April 2018 and 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, 2020 and 2019, approximately \$360,500 and \$273,879, respectively, of the grant had been earned. At June 30, 2020 and 2019 \$84,352 and \$115,125, respectively, was available to be expended.

11. 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 one (1) participant was examined (total participants for the year were three (3)) 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, 2020 and 2019

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 12, 2020, the date on which the financial statements were available to be issued.

In early 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. Restrictions and closures recommended by the state and federal agencies may have an impact on Habitat's future operations, which are unknown at this time. Habitat has taken steps to reduce the impact by evaluating and modifying operations and obtaining payroll protection plan funding. Management continues to closely monitor the situation and is taking steps to reduce risk and continue operations.

After year end Habitat opened construction financing lines of credit to fund two building projects. These projects are expected to generate funding to repay the lines of credit at project completion.

Valley Bank line of credit maturity date was extended to August 2021.

On July 1, 2020 Habitat was awarded a new grant for \$585,248 under the Self-Help program from Rural Development to be used over two years to construct 16 new homes.



INDEPENDENT AUDITOR'S 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, 2020, 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 12, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as item 2020-001 to be a material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as item 2020-002 to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-002.

Helena Area Habitat for Humanity's Response to Findings

Helena Area Habitat for Humanity's response to the findings identified in our audit are described in Management's responses to findings and corrective action plan. Helena Area Habitat for Humanity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 12, 2020

**HELENA AREA HABITAT FOR HUMANITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2020**

The following is a schedule of findings and other matters which arose during the audit for the year ended 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.

Cause:

This land was purchased and held with the intent of transferring the land without reimbursement to a trust at a future date.

Effect and Potential Effect:

This error results in assets being understated and expenses being overstated for the fiscal year. This could result in the organization losing track of assets it controls.

Context:

Assets were understated and expenses were overstated by \$86,000.

Auditor's Recommendation:

We recommend that the organization review new or unusual transactions closely to determine how they should be reported and disclosed. It is our understanding that the organization may receive grant funding to offset the cost of purchase for this land. It is our recommendation that this land is held at cost until the organization has a clear plan for how the land will be transferred. The organization should consider if future funding tied to this land should be used to reduce the cost of purchasing this land. The organization should evaluate if the value of the land is permanently impaired each year until it is disposed.

2020-002 Bank Reconciliations

Condition and Criteria:

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

Cause:

The original bank reconciliation was prepared prior to all closing adjustments being entered into the accounting software.

Effect and Potential Effect:

This resulted in reserved cash being misstated on the statement of financial position. This could result in funds held in trust being unaccounted for.

Context:

The bank reconciliation indicated that the cash held in trust of others had an \$8,000 lower balance than the financial statements.

Auditor's Recommendation:

Bank reconciliations should be prepared and reviewed after closing entries have been made.

HELENA AREA HABITAT FOR HUMANITY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended June 30, 2020

The following is a schedule of findings and the implementation status of those findings which arose during the audit for the years ending June 30, 2019:

2019-001 Bank Reconciliations

Condition and Criteria:

Bank reconciliations are not reviewed on a regular basis. Procedures should be in place to insure 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:

Partially implemented. See finding 2020-002.



We build strength, stability, self-reliance *and* shelter.

October 6, 2020

Sam Fallang
Certified Public Accountant
JCCS Accounting

RE: Responses to financial statement audit findings for fiscal year 2020

Dear Sam,

Please see my responses below to the findings laid out in the draft of the audited financial statements covering fiscal year 2020.

2020-001 - Land Held for Construction

Significant and unusual transactions will be reviewed by Board Treasurer to determine proper recording and presentation. A new account has been created to keep land held for construction on the balance sheet in Fixed Assets. We will evaluate on an annual basis if the land is permanently impaired.

2020-002 - Bank Reconciliations

All bank reconciliations are reviewed by executive director for reasonableness and random transactions are selected by ED from statements for further review. For FY 2021, all journal entries will be reviewed by Board Treasurer monthly. Bank reconciliations will now be performed after all closing entries and adjustments have been approved and recorded.

Please feel free to contact me with any other questions regarding the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Hein", is written over a light blue horizontal line.

Ben Hein, CPA
Controller
Helena Area Habitat for Humanity