

**HELENA AREA HABITAT FOR
HUMANITY**

AUDITED FINANCIAL STATEMENTS

June 30, 2022 and 2021



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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis of Opinion

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

Responsibilities of Management for the 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, and for 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.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to the known risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Helena Area Habitat for Humanity's ability to continue as a going concern for a reasonable period of time.

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2022, 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 effectiveness of Helena Area Habitat for Humanity's 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

November 11, 2022

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

	June 30	
	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 354,198	\$ 391,689
Reserved cash	64,377	2,189
Grants receivable	46,837	48,922
Mortgages receivable, current portion	7,730	7,898
Promises to give, current portion	10,933	15,708
Other receivable	4,595	3,612
Donated inventory	34,511	36,178
Purchased inventory	3,221	3,475
Homes under construction inventory	1,856,367	1,715,372
	2,382,769	2,225,043
 PROPERTY AND EQUIPMENT		
Construction in progress	540,372	583,372
Buildings and improvements	784,965	774,965
Vehicles	158,865	168,065
Furniture and fixtures	41,669	37,815
	1,525,871	1,564,217
Less accumulated depreciation	(191,689)	(152,118)
	1,334,182	1,412,099
 OTHER ASSETS		
Promises to give, net of current portion and discount	10,557	24,389
Mortgages receivable, net current portion	170,309	176,810
Unamortized mortgage discount	(86,241)	(90,609)
	94,625	110,590
Total assets	\$ 3,811,576	\$ 3,747,732

See notes to financial statements.

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

	June 30	
	2022	2021
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 98,698	\$ 47,077
Accrued compensated absences	20,587	15,768
Accrued expenses	33,706	18,582
Escrow accounts	556	1,876
Lines of credit	986,573	1,262,078
Notes payable, current portion	18,956	116,448
	1,159,076	1,461,829
 LONG-TERM LIABILITIES		
Notes payable, net of current portions and loan fee amortization	532,598	551,579
Total liabilities	1,691,674	2,013,408
 NET ASSETS		
Without donor restrictions:		
Undesignated - available for general activities	2,035,888	1,127,464
Board designated - cash for capital campaign	-	17,389
Board designated - land for Habitat facility expansion	-	404,372
Board designated - land for a land trust	43,000	86,000
	2,078,888	1,635,225
With donor restrictions	41,014	99,099
Total net assets	2,119,902	1,734,324
Total liabilities and net assets	\$ 3,811,576	\$ 3,747,732

See notes to financial statements.

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

	Year Ended June 30, 2022		
	Without donor restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions of nonfinancial assets			
ReStore sales	\$ 297,961	\$ -	\$ 297,961
Other nonfinancial assets	407,744	-	407,744
	705,705		705,705
Contributions	571,940	15,500	587,440
Grant revenue	264,056	104,887	368,943
Mortgage discount amortization	4,368	-	4,368
Home sales	2,032,697	-	2,032,697
Rent	16,943	-	16,943
Miscellaneous	101,685	-	101,685
Net assets released from restrictions:			
Satisfaction of grant restrictions	143,980	(143,980)	-
Pledges Written Off	9,300	(9,300)	-
Pledges paid	25,192	(25,192)	-
Total revenue and support	3,875,866	(58,085)	3,817,781
EXPENSES			
Program expenses:			
ReStore	274,176	-	274,176
Construction and partner family costs	2,836,089	-	2,836,089
Supporting services:			
Fundraising	135,117	-	135,117
Management and general	186,821	-	186,821
Total expenses	3,432,203	-	3,432,203
CHANGE IN NET ASSETS	443,663	(58,085)	385,578
Net assets, beginning of year	1,635,225	99,099	1,734,324
NET ASSETS, END OF YEAR	\$ 2,078,888	\$ 41,014	\$ 2,119,902

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 of nonfinancial assets			
ReStore sales	\$ 312,993	\$ -	\$ 312,993
Other nonfinancial assets	38,346	-	38,346
	351,339		351,339
Contributions	497,364	16,000	513,364
Grant revenue	302,385	197,051	499,436
Critical home repair income	1,800	-	1,800
Mortgage discount amortization	4,368	-	4,368
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)	-
	2,024,785	47,442	2,072,227
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
	1,698,845	-	1,698,845
Total expenses			
CHANGE IN NET ASSETS	325,940	47,442	373,382
Net assets, beginning of year	1,309,285	51,657	1,360,942
NET ASSETS, END OF YEAR	\$ 1,635,225	\$ 99,099	\$ 1,734,324

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2022

	PROGRAM SERVICES			SUPPORT SERVICES			Total
	ReStore	Construction and Partner Family Costs	Program Services Total	Fundraising	Management and General	Support Services Total	
Salaries	\$ 136,510	\$ 380,404	\$ 516,914	\$ 56,897	\$ 66,169	\$ 123,066	\$ 639,980
Payroll taxes and related benefits	36,280	73,111	109,391	13,918	4,993	18,911	128,302
Advertising costs	385	4,025	4,410	2,803	16,898	19,701	24,111
Bad Debt	-	-	-	9,300	-	9,300	9,300
Bank fees/credit card service fees	6,318	2	6,320	2,033	426	2,459	8,779
Campaign	-	-	-	33,393	-	33,393	33,393
Cost of homes sold	-	2,107,622	2,107,622	-	-	-	2,107,622
Depreciation	15,688	19,200	34,888	-	14,106	14,106	48,994
Direct construction costs	-	2,085	2,085	-	-	-	2,085
In-kind labor and services	-	65,636	65,636	-	3,775	3,775	69,411
Insurance	11,382	17,073	28,455	-	3,809	3,809	32,264
Interest	7,569	16	7,585	-	16,822	16,822	24,407
Lease	600	19,329	19,929	1,050	3,931	4,981	24,910
Maintenance	9,293	(403)	8,890	-	7,105	7,105	15,995
Miscellaneous	127	17,950	18,077	422	2,525	2,947	21,024
Professional fees	-	70,135	70,135	-	225	225	70,360
Supplies	6,948	60,826	67,774	4,720	12,728	17,448	85,222
Taxes and licenses	2,293	35	2,328	-	3,477	3,477	5,805
Telephone	1,627	7,312	8,939	210	2,912	3,122	12,061
Travel and training	3,164	20,595	23,759	857	4,577	5,434	29,193
Utilities	8,246	2,010	10,256	-	4,434	4,434	14,690
Vehicle	4,471	18,012	22,483	-	1,812	1,812	24,295
Indirect cost allocation	23,275	(48,886)	(25,611)	9,514	16,097	25,611	-
Total expenses	\$ 274,176	\$ 2,836,089	\$ 3,110,265	\$ 135,117	\$ 186,821	\$ 321,938	\$ 3,432,203

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
STATEMENTS OF CASH FLOWS**

	Years ended June 30	
	2022	2021
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ 385,578	\$ 373,382
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	48,994	43,575
Donated inventory received (non-cash)	1,667	(9,958)
Gain on disposal of equipment	(1,000)	-
Mortgage discount amortization	(4,368)	(4,368)
Land transferred	43,000	-
(Increase) decrease in:		
Grants receivable	2,085	73,796
Promises to give	18,607	6,804
Other receivable	(983)	7,706
Purchased inventory	254	(2,990)
Home construction in process	(140,994)	(564,264)
Increase (decrease) in:		
Accounts payable	51,621	(9,816)
Accrued compensated absences	4,819	2,394
Accrued expenses	15,124	(9,311)
Escrow accounts liability	(1,320)	1,362
Funds held in trust	-	(8,649)
Net cash provided (used) by operating activities	423,084	(100,337)
CASH FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(13,855)	(237,746)
Proceeds from disposal of property and equipment	1,000	-
Proceeds from notes receivable	6,669	2,222
Net cash used by investing activities	(6,186)	(235,524)
CASH FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	(275,505)	(246,104)
Principal payments on long-term debt	(18,404)	(650,511)
Principal forgiveness - PPP loan (non-cash)	(98,292)	-
Proceeds from long-term debt	-	1,458,871
Net cash provided (used) by financing activities	(392,201)	562,256
CHANGE IN CASH AND CASH EQUIVALENTS	24,697	226,395
Cash and cash equivalents, beginning of year	393,878	167,483
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 418,575	\$ 393,878
Cash and cash equivalents per statement of financial position:		
Cash and cash equivalents	\$ 354,198	\$ 391,689
Reserved cash	64,377	2,189
Cash and cash equivalents, end of year	\$ 418,575	\$ 393,878
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 24,388	\$ 26,338

See notes to financial statements.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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 aid 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.

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, 2022, insurance limits were exceeded and 2021, insurance limits were not exceeded.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

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, 2022 and 2021, was \$754 and \$2,189, 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, 2022 and 2021 were \$64,674 and zero, 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, 2022 and 2021 were zero and \$1,470 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, 2022 and 2021.

Habitat's financial instruments include mortgages receivable. The valuation methodology for these instruments is more fully described in Note 11.

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, 2022 and 2021

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, 2022 and 2021, was \$48,994 and \$43,575, respectively. Depreciation is computed using the straight-line method over the following estimated useful lives for items 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 met 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, 2022 and 2021

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 \$24,111 and \$12,796 in 2022 and 2021, 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, 2022 and 2021, substantially all promises to give are considered collectible, thus no allowance has been recorded. Bad debt expense for the years ended June 30, 2022 and 2021 were \$9,300 and \$11,988 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.

New Accounting Pronouncements:

During the year ended June 30, 2022, Habitat adopted FASB Accounting Standard Update (ASU) No. 2020-07, *Not-for-Profit Entities* (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. Management believes the standard improves the usefulness and understandability of Habitat's financial reporting. Habitat's prior policy accounting for nonfinancial assets agreed to the new standard. Implementing the standard changed the format of the statement of activities. There was no change in previously reported net assets.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Habitat implemented ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" including subsequent ASU's 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 up front 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.

Contract revenue by source:

	<u>2022</u>	<u>2021</u>
Revenue recognized at point in time		
Home sales	\$ 2,032,697	\$ 556,841
ReStore sales	<u>297,961</u>	<u>312,993</u>
	2,330,658	869,834
Sales recognized over time		
Grant income	<u>260,988</u>	<u>280,531</u>
Total contract income	<u>\$ 2,591,646</u>	<u>\$ 1,150,365</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

2. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Contract assets are as follows:

	<u>2022</u>	<u>2021</u>
Donated and purchased inventory (ReStore)	\$ 37,732	\$ 39,653
Homes under construction inventory	<u>1,856,367</u>	<u>1,715,372</u>
	<u>\$ 1,894,099</u>	<u>\$ 1,755,025</u>

There were 14 homes and 14 homes under construction in 2022 and 2021, respectively.

Beginning and ending contact balances are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Grants Receivable	<u>\$ 46,837</u>	<u>\$ 48,922</u>	<u>\$ 122,718</u>
Contract Assets	<u>\$ 1,894,099</u>	<u>\$ 1,755,025</u>	<u>\$ 1,177,813</u>

3. AVAILABILITY AND LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 354,198	\$ 391,689
Mortgages receivable, current	7,730	7,898
Promises to give current	10,933	15,708
Other receivables	4,595	3,612
Inventory, donated and purchased	<u>37,732</u>	<u>39,653</u>
	415,188	458,560
Less amounts not available for use within one year:		
Cash net assets designated by the Board of Directors	<u>-</u>	<u>17,389</u>
Financial assets available to meet general expenditures over the next twelve months.	<u>\$ 415,188</u>	<u>\$ 441,171</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.

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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

4. FUNDS HELD AT THE MONTANA COMMUNITY FOUNDATION

The Montana Community Foundation held \$84,177 and \$86,955 as of June 30, 2022 and 2021, 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, 2022 and 2021, 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:

	2022	2021
Grants awarded for construction of homes or projects	\$ 21,784	\$ 40,775
Promises to give	19,230	58,324
Total	\$ 41,014	\$ 99,099

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

	2022	2021
Grants awarded for construction of homes or projects	\$ 143,980	\$ 142,581
Promises to give	34,492	23,029
Total	\$ 178,472	\$ 165,610

6. LONG-TERM DEBT

Habitat had long- term debt at June 30, 2022 and 2021 as follows:

	2022	2021
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.	\$ 168,262	\$ 176,763
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.	278,829	285,769
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.	107,522	110,485

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

6. LONG-TERM DEBT (Continued)

	2022	2021
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.	-	98,292
	554,613	671,309
Less: Unamortized debt issuance costs	(3,059)	(3,282)
	551,554	668,027
Less: current portion	(18,956)	(116,448)
	\$ 532,598	\$ 551,579

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:

2023	\$ 18,956	
2024	19,732	
2025	20,599	
2026	21,523	
2027	23,209	
Thereafter	450,594	
		\$ 554,613

**HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021**

7. LINE OF CREDIT

Habitat's lines of credit are as follows:

	2022	2021
Valley Bank Line of credit with \$1,676,677 limit and 5.25% interest rate. Expires May 2024.	\$ 398,356	\$ -
Valley Bank line of credit with \$198,800 limit and 4.25% interest rate. Expires October 2023.	198,400	-
Valley Bank Line of credit with \$332,470 limit and 4.25% interest rate. Expires June 2023.	213,620	-
Altana Federal Credit Union with \$644,000 limit and 4.00% interest rate. Expiration date was extended from July 2021 to September 2022.	176,197	528,083
Ascent Bank with \$736,000 limit and 4.50% interest rate. Expires July 2022. Paid in full prior to expiration.	-	733,995
Total	\$ 986,573	\$ 1,262,078

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, 2022 and 2021, Habitat's tithing expenses were \$0 and \$5,000 respectively.

During the years ended June 30, 2022 and 2021, Habitat received contributions of \$21,764 and \$6,690, respectively, from various board members.

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, 2022 and 2021, Habitat's contributed service revenues were \$407,744 and \$38,346, respectively.

Individuals and organizations contributed 11,315 and 1,574 hours to assist in the construction of partner homes during the years ended June 30, 2022 and 2021. These in-kind contributions do not meet GAAP standards for recognition and therefore are not included in the financial statements.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

10. CONTRIBUTED NONFINANCIAL ASSETS

Habitat received contributions of nonfinancial assets from various sources that are recorded as revenue when they are received and expenses when they are used in the statement of activities. Below is a description of different types of nonfinancial assets received.

- Habitat operates a thrift store which receives donated merchandise. These donations are monetized by either selling the item out right or by recycling. The store aims to turn over donated inventory within one month. Inventory is valued at the time of sale. The proceeds are not restricted and are used to promote and construct partner family homes.
- Suppliers and contractors from time to time donate materials to construct partner family homes. The supplier or contractor communicates their intention to donate by invoicing the project and indicating the portion of the invoice they are donating. These donations are valued at the time of donation and the donation becomes part of the construction costs of the home it is benefiting.
- Real estate donations require an appraisal and are valued at the appraisal price. How the real estate is used is determined on a case-by-case basis. Homes that can be repaired to the standard set for partner families are placed in the partner family home program, repaired, and sold to a partner family. If it is determined that it would be more advantageous to sell the property, it is sold on the open market and proceeds are used to benefit the partner family program.

For the year ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities include:

	2022	2021
Restore	\$ 297,961	\$ 312,993
Real estate	340,000	-
Building materials	67,744	38,346
Total	<u>\$ 705,705</u>	<u>\$ 351,339</u>

11. 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.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

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

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, 2022 and June 30, 2021, 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, 2022 and 2021, 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.

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

	<u>2022</u>		<u>2021</u>	
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Number of Loans</u>	<u>Loan Amount</u>
Current	3	\$ 178,039	3	\$ 184,708
30 days past due	0	-	0	-
31-60 days past due	0	-	0	-
More than 60 days past due	0	-	0	-
	<u>3</u>	<u>\$ 178,039</u>	<u>3</u>	<u>\$ 184,708</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, 2021	\$ 7,898	\$ 176,810	\$ (90,609)
Payments received	(6,669)	-	-	(6,669)
transfer to current	6,501	(6,501)	-	-
Loan delinquency forgiven	-	-	-	-
Discount amortized	-	-	4,368	4,368
Ending balance June 30, 2022	<u>\$ 7,730</u>	<u>\$ 170,309</u>	<u>\$ (86,241)</u>	<u>\$ 91,798</u>

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

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

	<u>Due 1 Year</u>	<u>Due 2-26 Years</u>	<u>Discount</u>	<u>Fair Value</u>
Beginning balance July 1, 2020	\$ 7,976	\$ 178,954	\$ (94,977)	\$ 91,953
Payments received	(2,222)	-	-	(2,222)
transfer to current	2,144	(2,144)	-	-
Loan delinquency forgiven	-	-	-	-
Discount amortized	-	-	4,368	4,368
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance June 30, 2021	<u>\$ 7,898</u>	<u>\$ 176,810</u>	<u>\$ (90,609)</u>	<u>\$ 94,099</u>

12. PROMISES TO GIVE

Unconditional promises to give are as follows:

	<u>2022</u>	<u>2021</u>
Unconditional promises to give before amortized discount	\$ 21,783	\$ 40,775
Less: amortized discount	<u>(293)</u>	<u>(678)</u>
Net unconditional promises to give	21,490	40,097
Less: current portion	<u>(10,933)</u>	<u>(15,708)</u>
Long-term	<u>\$ 10,557</u>	<u>\$ 24,389</u>
Amounts due in:		
2023	\$ 10,933	
2024	8,222	
2025	2,141	
2026	<u>194</u>	
Total	<u>\$ 21,490</u>	

The discount rate used was 1.38% at June 30, 2022 and 2021.

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, 2022 and 2021, approximately \$409,422 and \$409,422, respectively, of the grant had been earned. At June 30, 2022 and 2021 \$35,430 and \$35,430, respectively, were available to be expended.

HELENA AREA HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2022 and 2021

13. 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 fourteen) 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.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2022, the date on which the financial statements were available to be issued.

- 7/29/2022 Sold real estate for \$195,051 and use \$176,221 of the proceeds to pay off a line of credit.
- 8/1/2022 purchased real estate for \$2,020,000. Debt financed \$1,950,000 of the purchase price.
- 8/23/2022 sold real estate for \$195,020.
- 9/7/2022 received \$50,476 from the 2nd and 3rd mortgage held on a partner home that was sold.
- 9/20/2022 signed grant agreement with USDA-RD for the Mutual Self Help program for \$637,360.
- 9/22/2022 established a construction line of credit for \$1,477,506.
- 9/26/2022 purchased box truck for the ReStore for \$74,053.
- 10/4/2022 repurchased a partner home for \$223,304. Assumed a mortgage of \$166,271.



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 and Management
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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2022.

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 and therefore, material weaknesses or significant deficiency may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 that we consider to be material weaknesses.



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

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*.

Helena Area Habitat for Humanity's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Helena Area Habitat for Humanity's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Helena Area Habitat for Humanity response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

November 11, 2022

**HELENA AREA HABITAT FOR HUMANITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2022**

The following is a schedule of findings and other matters which arose during the audit for the year ended June 30, 2022:

2022-001 Donated Real Estate

Condition and Criteria:

During the year a lot with an existing home was donated to the Organization with an appraised value of \$340,000. This home is in the process of being repaired to the standard set by the organization where it can be sold to a qualifying family.

This transaction was recorded as donation revenue and donation expense. Inkind donations are required to be recorded as revenue at the fair market value and to be expensed when the asset is used or disposed. In this case it should have been transferred to Construction in Progress (CIP).

Cause:

Incorrect accounting entry was made.

Effect and Potential Effect:

The effect was that current year expenses were overstated by \$340,000. If this error had not been corrected during the audit it would have resulted in the cost of home sold being understated in the future when the home is sold.

Context:

These types of transactions are rare and do not happen every year. The accounting personal recognized that this was a misstatement when we inquired about the transaction.

Auditors' Recommendations:

It is recommended that for rare or infrequent transactions consideration is given to the accounting to insure the accounting reflects the usage of the asset.

**HELENA AREA HABITAT FOR HUMANITY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2022**

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, 2021:

None.