

Habitat for Humanity of Greater Sioux Falls, Inc.

**Independent Auditor's Report
and Financial Statements**

**For the Years Ended
June 30, 2021 and 2020**

Habitat for Humanity of Greater Sioux Falls, Inc.
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Independent Auditor's Report

Board of Directors
Habitat for Humanity of Greater Sioux Falls, Inc.
Sioux Falls, SD

We have audited the accompanying financial statements of Habitat for Humanity of Greater Sioux Falls, Inc. (a South Dakota nonprofit organization) which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risks of material misstatements 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 Habitat for Humanity of Greater Sioux Falls, Inc. (a South Dakota non-profit organization), as of June 30, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "CIO Prof LLC". The letters are cursive and somewhat stylized.

Sioux Falls, South Dakota
December 9, 2021

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Financial Position

For the Years Ended June 30, 2021 and 2020

	June 30,	
	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 1,609,176	\$ 1,522,495
Restricted cash for escrow deposits	390,905	360,036
Accounts receivable - net	8,271	7,180
Current portion of mortgage receivables	178,249	174,573
Foreclosure/ deed in lieu	113,566	113,566
Construction in process	1,189,884	674,331
Lots in inventory	159,996	100,953
Restore inventory	16,468	7,195
Prepaid expenses	14,513	18,530
Total current assets	<u>3,681,028</u>	<u>2,978,859</u>
Property and Equipment		
Property and equipment	2,716,068	2,712,627
Less - accumulated depreciation	<u>(1,049,285)</u>	<u>(946,762)</u>
Net property and equipment	<u>1,666,783</u>	<u>1,765,865</u>
Other Assets		
Revolving loan fund	8,300	10,050
Beneficial interest in Sioux Falls Area Community Foundation	39,508	32,756
Long-term mortgage receivable (net of current portion)	<u>3,745,525</u>	<u>3,637,678</u>
Total other assets	<u>3,793,333</u>	<u>3,680,484</u>
	<u>\$ 9,141,144</u>	<u>\$ 8,425,208</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.
 Statements of Financial Position
 For the Years Ended June 30, 2021 and 2020 (Continued)

	June 30,	
	2021	2020
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 113,056	\$ 93,133
Deferred grant income	--	65,500
Current portion of long term debt	27,472	27,472
Paycheck protection program loan	120,722	117,685
Homeowner escrow deposits		
Taxes, maintenance, and insurance	72,455	67,453
Community Development Block Grant loan escrow	314,602	292,583
Total Current Liabilities	648,307	663,826
Long-Term Debt, net of current maturities	397,410	426,165
Total Liabilities	1,045,717	1,089,991
Net Assets		
Without donor restrictions	7,922,729	7,261,625
With donor restrictions	172,698	73,592
Total Net Assets	8,095,427	7,335,217
	\$ 9,141,144	\$ 8,425,208

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Activities
For the Year Ended June 30, 2021

	Year Ended June 30, 2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues and Support			
Contributions			
Businesses	\$ 25,252	\$ 128,750	\$ 154,002
Individuals	70,854	2,273	73,127
In-kind contributions	--	146,234	146,234
Special campaigns or events	--	54,112	54,112
Foundations and grants	--	514,921	514,921
Churches	8,613	81,277	89,890
Total contributions	<u>104,719</u>	<u>927,567</u>	<u>1,032,286</u>
Homeowner Activity			
Transfer to homeowners	558,422	--	558,422
Mortgage discounts amortization	170,289	--	170,289
Total homeowner activity	<u>728,711</u>	<u>--</u>	<u>728,711</u>
Restore Revenues	931,390	--	931,390
Other Revenues			
Interest	5,601	--	5,601
Investment return	8,100	--	8,100
Second mortgage	--	--	--
Miscellaneous	2,231	--	2,231
Gain on extinguishment of debt	117,685	--	117,685
SD COVID grant income	200,686	--	200,686
(Loss) on sale of asset	(559)	--	(559)
Total other revenues	<u>333,744</u>	<u>--</u>	<u>333,744</u>
Total revenue and other support	<u>2,098,564</u>	<u>927,567</u>	<u>3,026,131</u>
Net assets released from donor restrictions			
Satisfaction and expiration of restrictions	828,461	(828,461)	--
Total revenues from operations	<u>2,927,025</u>	<u>99,106</u>	<u>3,026,131</u>
Expenses			
Program expenses	2,088,442	--	2,088,442
Management and general	128,572	--	128,572
Fundraising	48,907	--	48,907
Total Expenses	<u>2,265,921</u>	<u>--</u>	<u>2,265,921</u>
Change in Net Assets	661,104	99,106	760,210
Net Assets, Beginning of Year	7,261,625	73,592	7,335,217
Net Assets, End of Year	<u>\$ 7,922,729</u>	<u>\$ 172,698</u>	<u>\$ 8,095,427</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Activities
For the Year Ended June 30, 2020

	Year Ended June 30, 2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues and Support			
Contributions			
Businesses	\$ 12,246	\$ 94,866	\$ 107,112
Individuals	111,126	8,295	119,421
In-kind contributions	--	89,544	89,544
Special campaigns or events	27,957	--	27,957
Foundations and grants	2,500	641,052	643,552
Churches	5,840	43,869	49,709
Total Contributions	<u>159,669</u>	<u>877,626</u>	<u>1,037,295</u>
Homeowner Activity			
Transfer to homeowners	349,500	--	349,500
Mortgage discounts amortization	221,486	--	221,486
Total homeowner activity	<u>570,986</u>	<u>--</u>	<u>570,986</u>
Restore revenues	704,962	--	704,962
Other revenues			
Interest	17,228	--	17,228
Investment return	941	--	941
Second mortgage	3,094	--	3,094
Miscellaneous	20,104	--	20,104
Gain on extinguishment of debt	--	--	--
SD COVID grant income	--	--	--
(Loss) on sale of asset	--	--	--
Total other revenues	<u>41,367</u>	<u>--</u>	<u>41,367</u>
Total revenue and other support	<u>1,476,984</u>	<u>877,626</u>	<u>2,354,610</u>
Net assets released from donor restrictions			
Satisfaction and expiration of restrictions	929,049	(929,049)	--
Total revenues from operations	<u>2,406,033</u>	<u>(51,423)</u>	<u>2,354,610</u>
Expenses			
Program expenses	1,759,511	--	1,759,511
Management and general	136,637	--	136,637
Fundraising	39,807	--	39,807
Total expenses	<u>1,935,955</u>	<u>--</u>	<u>1,935,955</u>
Change in Net Assets	470,078	(51,423)	418,655
Net Assets, Beginning of Year	6,791,547	125,015	6,916,562
Net Assets, End of Year	<u>\$ 7,261,625</u>	<u>\$ 73,592</u>	<u>\$ 7,335,217</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.
Statements of Functional Expenses

**For the Year Ended June 30,
2021**

Expenses	Restore Activity	Affiliate Activity	Total Program Services	Management and General	Fundraising	Total
Construction and sale costs-sold homes	\$ --	\$ 778,351	\$ 778,351	\$ --	\$ --	\$ 778,351
Salaries and wages	238,037	297,669	535,706	63,406	24,201	623,313
Mortgage discounts	--	228,244	228,244	--	--	228,244
Printing, promotion, volunteer recognition	32,885	65,563	98,448	12,886	3,183	114,517
Depreciation	48,185	52,286	100,471	1,025	1,025	102,521
Warehouse expense	50,795	16,225	67,020	4,233	198	71,451
Payroll taxes and employee benefits	28,370	29,787	58,157	5,866	2,192	66,215
Cost of goods sold - purchased inventory	56,059	--	56,059	--	--	56,059
Insurance	13,388	32,302	45,690	6,551	--	52,241
Professional services	7,234	29,201	36,435	9,293	--	45,728
Office supplies and expense	9,891	14,815	24,706	7,946	--	32,652
Vehicle, travel, and training costs	20,878	4,316	25,194	616	--	25,810
Miscellaneous	909	4,766	5,675	16,179	249	22,103
Fundraising	--	--	--	--	17,859	17,859
Neighborhood initiative materials	--	15,265	15,265	--	--	15,265
Tithe to Habitat for Humanity	--	9,908	9,908	--	--	9,908
Telephone	1,339	1,692	3,031	571	--	3,602
Interest expense	--	74	74	--	--	74
House warranty expense	--	8	8	--	--	8
Total Expenses	<u>\$ 507,970</u>	<u>\$ 1,580,472</u>	<u>\$ 2,088,442</u>	<u>\$ 128,572</u>	<u>\$ 48,907</u>	<u>\$ 2,265,921</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.
Statements of Functional Expenses

**For the Year Ended June 30,
2020**

Expenses	Restore Activity	Affiliate Activity	Total Program Services	Management and General	Fundraising	Total
Construction and sale costs-sold homes	\$ --	\$ 617,232	\$ 617,232	\$ --	\$ --	\$ 617,232
Salaries and wages	194,166	313,015	507,181	58,217	24,321	589,719
Mortgage discounts	--	139,869	139,869	--	--	139,869
Printing, promotion, volunteer recognition	15,684	32,604	48,288	15,829	1,519	65,636
Depreciation	49,831	54,073	103,904	1,060	1,060	106,024
Warehouse expense	63,736	20,519	84,255	4,700	272	89,227
Payroll taxes and employee benefits	19,041	31,120	50,161	5,518	2,208	57,887
Cost of goods sold - purchased inventory	54,311	--	54,311	--	--	54,311
Insurance	8,370	27,284	35,654	8,838	--	44,492
Professional services	6,272	24,379	30,651	11,463	--	42,114
Office supplies and expense	15,004	18,608	33,612	10,169	--	43,781
Vehicle, travel, and training costs	19,684	5,665	25,349	1,789	--	27,138
Miscellaneous	--	2,691	2,691	18,035	158	20,884
Fundraising	--	--	--	--	10,269	10,269
Neighborhood initiative materials	--	11,319	11,319	--	--	11,319
Tithe to Habitat for Humanity	--	8,874	8,874	--	--	8,874
Telephone	3,739	2,221	5,960	1,019	--	6,979
Interest expense	--	--	--	--	--	--
House warranty expense	--	200	200	--	--	200
Total Expenses	<u>\$ 449,838</u>	<u>\$ 1,309,673</u>	<u>\$ 1,759,511</u>	<u>\$ 136,637</u>	<u>\$ 39,807</u>	<u>\$ 1,935,955</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in Net Assets	\$ 760,210	\$ 418,655
Charges and Credits to Net Income Not Affecting Cash		
Depreciation	102,521	106,024
Mortgages transferred to homeowner (net discounts)	(330,178)	(209,631)
CDBG and SDHDA transferred to homeowners	(306,500)	(337,500)
Mortgage loan discount amortization	(170,289)	(221,486)
Paycheck protection plan loan forgiveness	(117,685)	--
Net appreciation in fair value of investments	(8,137)	(941)
(Increase) Decrease in assets		
Lots in inventory	(59,043)	(16,366)
Construction in process	(515,553)	(250,895)
Accounts receivable	(1,091)	(356)
ReStore inventory	(9,273)	(327)
Prepaid expenses	4,017	(2,618)
Revolving loan pool receivable	1,750	(1,451)
(Decrease) Increase in Liabilities		
Loan fees amortization	386	386
Revolving loan pool payable	--	(8,599)
Deferred grant income	(65,500)	65,500
Accounts payable and accrued liabilities	19,923	(22,062)
Net Cash (Used) by Operating Activities	(694,442)	(481,667)
Net Cash Flow from Investing Activities		
Property and equipment purchases	(3,439)	(25,622)
Sioux Falls Area Community Foundation endowment	1,385	4,120
Payments received on contracts for deed/mortgage loans	388,944	402,229
Net Cash Provided by Investing Activities	386,890	380,727
Net Cash Flows Provided by Financing Activities		
Proceeds from long term debt	306,500	337,500
Proceeds from paycheck protection program loan	120,722	117,685
Principal payments on long term debt	(32,989)	(113,946)
Net Cash Provided By Financing Activities	394,233	341,239
Net Increase in Cash and Cash Equivalents	86,681	240,299
Cash and Cash Equivalents, Beginning of Year	1,522,495	1,282,196
Cash and Cash Equivalents, End of Year	\$ 1,609,176	\$ 1,522,495

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.
Supplemental Disclosures of Cash Flow Information
For the Years Ended June 30, 2021 and 2020

	Years Ended June 30,	
	<u>2021</u>	<u>2020</u>
Schedule of Noncash Investing and Financing Activities		
Issuance of non-interest bearing mortgages	\$ 558,422	\$ 349,500
Community Development Block Grant and South Dakota Housing Development Authority debt transferred to home buyers	306,500	337,500
In-kind Contributions	146,234	89,544
Interest Paid	--	2,954

The accompanying Notes to Financial Statements are an integral part of this statement.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

1. Significant Accounting Policies:

Nature of Business: Habitat for Humanity of Greater Sioux Falls, Inc. (Habitat) is an affiliate of Habitat for Humanity, International, Inc. (Habitat International), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information, resources, training, publications, and prayer support, Habitat is primarily and directly responsible for its own operations.

Basis of Accounting: Habitat prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Net Assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets with Donor Restrictions: Net assets subject to donor or grantor restrictions. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions

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

Construction in Process and Lots in Inventory: Construction in process and lots in inventory represent the construction costs, including donated material, specialized services, and real estate associated with homes currently under construction by Habitat. Donated items that will be used for the construction of Habitat homes are normally only held for a short period and are not material. Accordingly, they are not valued in inventory unless the quantity of such items results in the inventory being carried over until the next construction season. At the time these materials are used in construction, a value is placed on the materials and added to the cost of the home.

ReStore Inventory: ReStore inventory consisting primarily of donated construction materials and used appliances. These are not valued in the accompanying financial statements in that values cannot be reasonably determined at the time of the donation. Purchased inventory is valued at cost. Sales proceeds received from the sale of such items are reflected in the statement of activities and changes in net assets ended June 30, 2021 and 2020.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

1. Significant Accounting Policies: (Continued)

Cash Equivalents: For purposes of the statement of cash flows, Habitat considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Habitat maintains cash balances at two financial institutions located in Sioux Falls, South Dakota. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, Habitat's balances exceed the \$250,000 insurance limit. Management believes that its cash and temporary cash investments are held by high quality financial institutions.

Contributions: Contributions are generally recorded only upon receipt unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Donated Materials and Services

ReStore: Habitat receives new, used, or surplus building materials and appliances along with volunteer services in the ReStore operation. These volunteer services are not valued in the accompanying financial statements as they do not meet the criteria for recognition. Further, the value of donated materials and appliances is recognized when sold due to the uncertainty of value when received.

Home Construction: In-kind contributions reported in the statement of activities and changes in net assets consists of primarily donated construction materials and the donated services of skilled professionals and tradesman related to the construction of homes. These services and materials are recorded at estimated fair market value at the date received.

Other: No amounts have been reflected in the financial statements for non-specialized donated services. However, many individuals volunteer their time and perform a variety of tasks that assist Habitat with home construction, the ReStore, specific assistance programs, campaign solicitations, and various board assignments. Criteria for recognition of these services include donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation.

Income Taxes: Habitat has received an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International by the Internal Revenue Service. Donations to the Habitat are tax deductible.

Functional Allocation of Expenses: The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the programs and supporting services benefited.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

1. Significant Accounting Policies: (Continued)

Property and Equipment: All property and equipment are stated at historical cost on the date of purchase or fair market value at the date of the gift. Depreciation is computed on a straight-line basis over the useful lives of the assets as indicated. Habitat has adopted the policy in accordance with federal grant guidelines to directly charge to operations the cost of any item of equipment that is less than \$1,000. Items of equipment with a purchase price in excess of \$1,000 are recorded as fixed asset at actual cost.

Below is a table listing Habitat's current property and equipment:

		June 30,	
	Useful Lives	2021	2020
Warehouse facility	39	\$ 2,201,760	\$ 2,199,045
Land	-	156,755	156,755
Land improvements	15	68,949	68,949
Equipment	5-7	288,604	287,878
		<u>\$ 2,716,068</u>	<u>\$ 2,712,627</u>

Fair Value of Financial Instruments: Habitat's financial instruments consist of cash, investments, receivables, accounts payable, accrued expenses, and notes payable. Cash, receivables, accounts payable, accrued expenses, and notes payable are stated at cost, which approximates fair value. Investments are recorded at fair value.

Deferred Financing Costs: Debt issuance costs are amortized on a straight-line basis over the term of the related debt. For the years ended June 30, 2021 and 2020, amortized mortgage financing costs and loan discounts were \$386 each and are included in interest expense.

Reclassifications: Certain amounts as previously reported have been reclassified to be consistent with the current year presentation.

Subsequent Events: Habitat has evaluated subsequent events through December 9, 2021 the date the financial statements were available to be issued.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

2. Liquidity and Availability of Financial Assets:

The following reflects Habitat's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	2021	2020
Financial Assets:		
Cash	\$ 1,609,176	\$ 1,522,495
Restricted Cash	390,905	360,036
Accounts receivable	8,271	7,180
Total financial assets	<u>2,008,352</u>	<u>1,889,711</u>
Less financial assets held to meet donor restrictions	172,698	73,592
Less restricted cash	<u>390,905</u>	<u>360,036</u>
Amounts available for general expenditure within one year	<u><u>\$ 1,444,749</u></u>	<u><u>\$ 1,456,083</u></u>

As part of Habitat's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Habitat has a committed line of credit in the amount of \$250,000 which it could draw upon (See Note 11).

3. Tithe Transactions with Habitat for Humanity International:

As a local affiliate of Habitat International, Habitat is encouraged to support the work of the international organization. These funds are used to construct homes in economically depressed areas around the world. These payments totaled \$9,908 and \$8,874 during the years ended June 30, 2021 and 2020 and are included as program services expenses.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

4. Mortgage Receivable:

Mortgage receivables consist of non-interest-bearing mortgages which are secured by real estate and are payable in monthly installments. Most of the mortgages have an original maturity of 20 to 30 years. These receivables have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Interest income is recorded under the interest method in accordance with FASB ASC Topic 835, *Interest*. These mortgages are secured by the underlying real estate that is located primarily in Minnehaha, Lincoln, and Turner counties.

	<u>2021</u>	<u>2020</u>
Mortgage receivables	\$ 6,858,423	\$ 6,688,945
Discount on mortgage receivables	<u>(2,934,649)</u>	<u>(2,876,694)</u>
Net mortgage receivables	<u>\$ 3,923,774</u>	<u>\$ 3,812,251</u>

Mortgage receivables/maturities as of June 30, 2021, consist of the following:

<u>Year Ended</u>	<u>Mortgage Receivable</u>	<u>Discount Amortization</u>	<u>Net</u>
2022	\$ 333,265	\$ (155,016)	\$ 178,249
2023-2027	1,655,823	(754,408)	901,415
Thereafter	4,869,335	<u>(2,025,225)</u>	2,844,110
Total	<u>\$ 6,858,423</u>	<u>\$ (2,934,649)</u>	<u>\$ 3,923,774</u>

Transfers to Homeowners:

Transfers to homeowners represent the sale of houses built by Habitat. The transfers to homeowners are presented in the statements of activities and changes in net assets as program revenue and the mortgage discounts at inception as program expense

Because mortgage receivables are secured by the real estate, and ultimately through the process of foreclosure, management believes that procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

5. Restricted Cash-Homeowner Escrow Deposits:

Restricted cash reflects homeowner escrow deposits held by Habitat as described as follows:

Taxes, Maintenance, and Insurance:

Habitat accumulates a portion of the monthly mortgage payments made by property owners to provide adequate funds to pay insurance, property maintenance costs, and real estate taxes as they become due. The escrow balance as of June 30, 2021 and 2020 was \$72,455 and \$67,453, respectively.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

5. Restricted Cash-Homeowner Escrow Deposits: (Continued)

Community Development Block Grant and South Dakota Housing Development Authority Loan Escrow:

The U.S Department of Housing and Urban Development (HUD) through Community Development Block Grants (CDBG) and South Dakota Housing Development Authority (SDHDA) provide funds for purposes of land acquisition and development. The funds are provided in the form of non-interest-bearing loans that attach to the property and are due on sale. At the time a property is sold to a Habitat homeowner, the loan associated with the lot sold is transferred from Habitat to the homeowner and remains a non-interest-bearing loan. The loan is payable when the home is sold to a homeowner that is ineligible for the Habitat program. Loans that are associated with homes sold to a new Habitat homeowner will be transferred to the new owner along with the related escrow balance.

Escrow funds are collected as part of the monthly payment form Habitat homeowners. They are retained by Habitat until such time as they are required to pay the loan. Amounts held in escrow are reflected as restricted cash and escrow payable in the financial statements.

A summary of activity related to the Community Development Block Grant and South Dakota Housing Development Authority Loan Escrow Accounts are as follows:

	2021	2020
Beginning balance	\$ 292,583	\$ 275,593
Escrow deposits received	125,601	98,462
Escrow payments	(103,582)	(81,472)
Ending balance	<u>\$ 314,602</u>	<u>\$ 292,583</u>

6. Beneficial Interest in Sioux Falls Area Community Foundation:

Two agency endowment funds have been established at the Sioux Falls Area Community Foundation (the Foundation) that name Habitat as the designated beneficiary of distributions from these funds. Funds available for distribution are based on 4-5% of the twelve-quarter trailing average balance of the endowment each year once the fund has been in existence for twelve quarters. Distributions are subject to the Foundation's power to "modify or remove any restriction or condition on the fulfillment, or inconsistent with the charitable needs of the communities' served." The Foundation has not exercised such power since its establishment in 1984. The aggregate current market value of such transfers, plus income and less distributions and fees is \$39,508 as of June 30, 2021 and \$32,756 as of June 30, 2020. The aggregate current market value is reflected in Habitat's statements of financial position as a beneficial interest in the net assets of the Sioux Falls Area Community Foundation. The distributable portions of the funds are \$-0- as of June 30, 2021 and \$-0- as of June 30, 2020.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

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7. Fair Value Measurement:

The following table shows the fair value of the Habitat's financial assets that are required to be measured at fair value as of June 30, 2021:

	<u>Fair Value</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets Held by Community Foundation	\$ 39,508	\$ 39,508
	<u>\$ 39,508</u>	<u>\$ 39,508</u>

The following table shows the fair value of the Habitat's financial assets that are required to be measured at fair value as of June 30, 2020:

	<u>Fair Value</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets Held by Community Foundation	\$ 32,756	\$ 32,756
	<u>\$ 32,756</u>	<u>\$ 32,756</u>

Fair value for the beneficial interest in assets held by community foundation is determined by Habitat's unit interest in the fair market value of all investments held by the foundation.

Habitat recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the year ended June 30, 2021.

The following table provides a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) as of June 30, 2021 and 2020

Beneficial interest in assets held by community foundation:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 32,756	\$ 35,935
Investment fees	(281)	(743)
Unrealized gains relating to instruments still held at reporting date	8,381	1,684
Payments from Community Foundation	(1,348)	(4,120)
Balance, end of year	<u>\$ 39,508</u>	<u>\$ 32,756</u>

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8. Endowment Funds:

Habitat's endowments consist of two agency funds with the Sioux Falls Area Community Foundation (the Foundation) (See Note 6). Its endowments included both unrestricted and restricted donor funds. Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for the building of decent, affordable housing for those in need while seeking to mitigate the loss of purchasing power of the endowment assets.

Habitat's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. Habitat's investment objective is to achieve a 5% annual real rate of return net of fees over ten-year time frames. Actual returns may vary from this amount.

To satisfy its long-term rate-of-return objectives, Habitat relies on total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The agency funds at the Foundation targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Foundation distributes to Habitat 4-5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end.

The following summarizes the endowment fund held by Habitat as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beneficial interest in assets held by Community Foundation July 1, 2020	\$ 22,295	\$ 10,461	\$ 32,756
Investment fees	(281)	--	(281)
Investment appreciation	8,381	--	8,381
Appropriation for expenditure	(1,348)	--	(1,348)
Balance, June 30, 2021	<u>\$ 29,047</u>	<u>\$ 10,461</u>	<u>\$ 39,508</u>

The following summarizes the endowment fund held by Habitat as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beneficial interest in assets held by community foundation July 1, 2019	\$ 25,474	\$ 10,461	\$ 35,935
Investment fees	(743)	--	(743)
Investment appreciation	1,684	--	1,684
Appropriation for expenditure	(4,120)	--	(4,120)
Balance, June 30, 2020	<u>\$ 22,295</u>	<u>\$ 10,461</u>	<u>\$ 32,756</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

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9. Long Term Debt:

Long-Term Debt consisted of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Participation loans		
Note payable to bank at 0% interest in monthly payments of \$288 through December, 2032	39,102	42,839
Note payable to bank at 0% interest in monthly payments of \$372 through December, 2032	88,941	93,903
Note payable to bank at 0% interest in monthly payments of \$290 through December, 2032	71,148	74,921
Note payable to bank at 0% interest in monthly payments of \$222 through December, 2028	19,673	23,287
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$243 through August, 2029	22,979	26,056
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$260 through September, 2030	27,002	29,239
Note Payable to bank at 0% interest in monthly payments of \$298 through January 2043	76,983	80,863
Note Payable to bank at 0% interest in monthly payments of \$314 through November 2042	79,712	83,790
Total participation loans	<u>425,540</u>	<u>454,898</u>
Less debt issuance costs	<u>(658)</u>	<u>(1,261)</u>
Total long term debt	<u>\$ 424,882</u>	<u>\$ 453,637</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

9. Long Term Debt: (Continued)

Participation loans represent obligations whereby the lending organization has a 100% participation in a specific mortgage receivable and related collateral. Habitat and the participating lender have equal rights in the participated mortgages receivable and collateral. The mortgage balances of the collateral were \$425,540 and \$459,395 as of June 30, 2021 and 2020, respectively.

Long-Term debt maturities at June 30, 2021 are as follows:

2022	27,472
2023	27,586
2024	27,858
2025	27,858
2026	27,858
Thereafter	286,250
Total	<u>\$ 424,882</u>

10. Retirement Plan:

Habitat has a SIMPLE Individual Retirement Plan (IRA) for its employees. Habitat makes matching contributions for all eligible participating employees. Retirement contributions were \$11,828 and \$10,417 for the years ended June 30, 2021 and 2020.

11. Line of Credit:

Habitat has a \$250,000 unsecured operating line of credit which had a balance of \$0 and \$0 for years ended June 30, 2021 and 2020. The line of credit matures on March 31, 2022 and carries an interest rate of prime minus 1%. Interest is to be paid each month and total interest paid on this note was \$0 and \$0 for the years ended June 30, 2021 and 2020.

12. Net Assets Released from Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as of June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished		
Home build projects	823,923	915,695
Neighborhood Revitalization Initiative	4,538	13,354
Total	<u>\$ 828,461</u>	<u>\$ 929,049</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

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13. Paycheck Protection Program (PPP) Loan

Habitat received \$117,685 loan under the PPP administered by a Small Business Administration (SBA) approved bank in April 2020. Habitat received full loan forgiveness for 100% of the loan, upon meeting certain requirements. Habitat recorded the forgiveness of the loan as revenue upon being legally released from the loan by the SBA in the current year. Habitat received a second PPP loan in the amount of \$120,722 approved bank in February 2021. The loan is uncollateralized and is fully guaranteed by the federal government. Habitat is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Habitat will record the forgiveness of the loan as revenue upon being legally released from the loan by the SBA, which is expected to occur in either end of 2021 or early 2022. Habitat will be required to repay any unforgiven amount, plus interest accrued at 1 percent, in monthly principal and interest payments through its February 10, 2026, maturity date. Payments are deferred until the date the SBA comes to a decision on Habitat's forgiveness application.

14. Risks and Uncertainties

As a result of the spread of the SARS-COV-2 virus, the incidence of COVID-19, and the world-wide coronavirus pandemic, economic uncertainties have arisen which may negatively affect the financial position, results of operation, and cash flows of Habitat. Habitat has taken several measures to monitor and mitigate the effects, such as safety and health measures for their people and their clients. Habitat is closely monitoring its operations, liquidity, and capital resources and is working to minimize the current and future impact of this unprecedented situation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

15. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

16. Implementation of New Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This ASU is effective for annual periods after December 15, 2019 and interim periods beginning after December 15, 2020. The new standard did not impact Habitat's financial statements.

As of July 1, 2019, Habitat adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Before the change, restricted cash and restricted cash equivalents were not included in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts reported on the statement of cash flows. The adoption of this standard had no significant impact on the financial statements for the years presented.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

16. Implementation of New Standards (Continued)

As of July 1, 2019, Habitat adopted ASU 2018-09, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions and is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions as well as whether a contribution is conditional. The adoption of the standard had no significant impacts on the financial statements for the years presented.

17. Recently Issued Accounting Pronouncements:

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for annual interim periods beginning after December 15, 2021 and interim periods beginning after December 15, 2022 with an early adoption permitted. It is to be adopted using the modified retrospective approach. Habitat is currently evaluating this guidance to determine the impact, if any, it may have on its financial statements.

18. Subsequent Events

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.