

Habitat for Humanity of Greater Sioux Falls, Inc.

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

**For the Years Ended
June 30, 2022 and 2021**

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

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Greater Sioux Falls, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, 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 Habitat for Humanity of Greater Sioux Falls, Inc. 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 for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Habitat for Humanity of Greater Sioux Falls, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Greater Sioux Falls, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Greater Sioux Falls, Inc.'s ability to continue as a going concern for a reasonable period of time.

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



Sioux Falls, South Dakota
December 2, 2022

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Financial Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 3,638,368	\$ 1,609,176
Restricted cash for escrow deposits	417,371	390,905
Accounts receivable - net	3,159	8,271
Employee retention credit receivable	259,888	--
Grant receivable	165,000	--
Current portion of mortgage receivables	198,580	178,249
Foreclosure/ deed in lieu	--	113,566
Construction in process	811,488	1,189,884
Lots in inventory	653,802	159,996
Restore inventory	25,582	16,468
Prepaid expenses	13,754	14,513
Total current assets	<u>6,186,992</u>	<u>3,681,028</u>
Property and Equipment		
Property and equipment	2,731,239	2,716,068
Less - accumulated depreciation	<u>(1,144,713)</u>	<u>(1,049,285)</u>
Net property and equipment	<u>1,586,526</u>	<u>1,666,783</u>
Other Assets		
Revolving loan pool receivable	3,850	8,300
Beneficial interest in Sioux Falls Area Community Foundation	32,749	39,508
Long-term mortgage receivable (net of current portion)	<u>3,991,750</u>	<u>3,745,525</u>
Total other assets	<u>4,028,349</u>	<u>3,793,333</u>
	<u>\$ 11,801,867</u>	<u>\$ 9,141,144</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
 June 30, 2022 and 2021 (Continued)

	2022	2021
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 143,700	\$ 113,056
Current portion of long term debt	27,586	27,472
Paycheck protection program loan	--	120,722
Homeowner escrow deposits		
Taxes, maintenance, and insurance	82,787	72,455
Community Development Block Grant loan escrow	334,584	314,602
Total Current Liabilities	588,657	648,307
Long-Term Debt, net of current maturities	370,328	397,410
Total Liabilities	958,985	1,045,717
Net Assets		
Without donor restrictions	10,721,399	7,922,729
With donor restrictions	121,483	172,698
Total Net Assets	10,842,882	8,095,427
	\$ 11,801,867	\$ 9,141,144

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

Habitat for Humanity of Greater Sioux Falls, Inc.

Statement of Activities

For the Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Contributions			
Businesses	\$ 52,244	\$ 384,478	\$ 436,722
Individuals	2,099,195	162,597	2,261,792
In-kind contributions	--	166,941	166,941
Special campaigns or events	116,516	--	116,516
Foundations and grants	--	527,562	527,562
Churches	6,068	--	6,068
Total contributions	<u>2,274,023</u>	<u>1,241,578</u>	<u>3,515,601</u>
Homeowner Activity			
Transfer to homeowners	897,851	--	897,851
Mortgage discounts amortization	148,928	--	148,928
Total homeowner activity	<u>1,046,779</u>	<u>--</u>	<u>1,046,779</u>
Restore Revenues	920,466	--	920,466
Other Revenues			
Interest	2,727	--	2,727
Investment return	(5,434)	--	(5,434)
Second mortgage	15,079	--	15,079
Miscellaneous	18,403	--	18,403
Employee retention credit	259,888	--	259,888
Gain on extinguishment of debt	120,722	--	120,722
Total other revenues	<u>411,385</u>	<u>--</u>	<u>411,385</u>
Total revenue and other support	<u>4,652,653</u>	<u>1,241,578</u>	<u>5,894,231</u>
Net assets released from donor restrictions			
Satisfaction and expiration of restrictions	1,292,793	(1,292,793)	--
Total revenues from operations	<u>5,945,446</u>	<u>(51,215)</u>	<u>5,894,231</u>
Expenses			
Program expenses	2,881,876	--	2,881,876
Management and general	205,130	--	205,130
Fundraising	59,770	--	59,770
Total Expenses	<u>3,146,776</u>	<u>--</u>	<u>3,146,776</u>
Change in Net Assets	2,798,670	(51,215)	2,747,455
Net Assets, Beginning of Year	<u>7,922,729</u>	<u>172,698</u>	<u>8,095,427</u>
Net Assets, End of Year	<u>\$ 10,721,399</u>	<u>\$ 121,483</u>	<u>\$ 10,842,882</u>

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

Habitat for Humanity of Greater Sioux Falls, Inc.

Statement of Activities

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
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	<u>7,261,625</u>	<u>73,592</u>	<u>7,335,217</u>
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 Functional Expenses
For the Year Ended June 30, 2022

Expenses	Restore Activity	Affiliate Activity	Total Program Services	Management and General	Fundraising	Total
Construction and sale costs-sold homes	\$ --	\$ 1,169,966	\$ 1,169,966	\$ --	\$ --	\$ 1,169,966
Salaries and wages	279,185	295,184	574,369	108,907	25,545	708,821
Mortgage discounts	--	359,316	359,316	--	--	359,316
Printing, promotion, volunteer recognition	34,355	79,368	113,723	13,234	3,324	130,281
Tithe to Habitat for Humanity	--	113,917	113,917	--	--	113,917
Warehouse expense	69,522	27,232	96,754	5,541	317	102,612
Cost of goods sold - purchased inventory	93,500	--	93,500	--	--	93,500
Depreciation	43,192	46,867	90,059	919	919	91,897
Payroll taxes and employee benefits	31,870	38,550	70,420	10,790	2,764	83,974
Professional services	8,474	32,690	41,164	18,416	--	59,580
Miscellaneous	3,356	28,306	31,662	19,620	1,023	52,305
Insurance	11,741	29,614	41,355	8,830	--	50,185
Vehicle, travel, and training costs	20,612	13,416	34,028	4,928	--	38,956
Office supplies and expense	11,757	17,247	29,004	6,337	254	35,595
Fundraising	--	--	--	--	25,624	25,624
Neighborhood initiative materials	--	19,174	19,174	--	--	19,174
Bad Debt Expense	--	--	--	7,054	--	7,054
Telephone	1,439	1,715	3,154	554	--	3,708
Interest expense	--	311	311	--	--	311
Total Expenses	<u>\$ 609,003</u>	<u>\$ 2,272,873</u>	<u>\$ 2,881,876</u>	<u>\$ 205,130</u>	<u>\$ 59,770</u>	<u>\$ 3,146,776</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
Tithe to Habitat for Humanity	--	9,908	9,908	--	--	9,908
Warehouse expense	50,795	16,225	67,020	4,233	198	71,451
Cost of goods sold - purchased inventory	56,059	--	56,059	--	--	56,059
Depreciation	48,185	52,286	100,471	1,025	1,025	102,521
Payroll taxes and employee benefits	28,370	29,787	58,157	5,866	2,192	66,215
Professional services	7,234	29,201	36,435	9,293	--	45,728
Miscellaneous	909	4,766	5,675	16,179	249	22,103
Insurance	13,388	32,302	45,690	6,551	--	52,241
Vehicle, travel, and training costs	20,878	4,316	25,194	616	--	25,810
Office supplies and expense	9,891	14,815	24,706	7,946	--	32,652
Fundraising	--	--	--	--	17,859	17,859
Neighborhood initiative materials	--	15,265	15,265	--	--	15,265
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 Cash Flows

For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in Net Assets	\$ 2,747,455	\$ 760,210
Charges and Credits to Net Income Not Affecting Cash		
Depreciation	91,897	102,521
Mortgages transferred to homeowner (net discounts)	(538,535)	(330,178)
CDBG and SDHDA transferred to homeowners	(465,000)	(306,500)
Mortgage loan discount amortization	(148,928)	(170,289)
Paycheck protection plan loan forgiveness	(120,722)	(117,685)
Net appreciation in fair value of investments	5,384	(8,137)
Increase (Decrease) in assets		
Lots in inventory	(493,806)	(59,043)
Construction in process	378,396	(515,553)
Foreclosure/ deed in lieu	113,566	--
Accounts receivable	5,112	(1,091)
Employee retention credit receivable	(259,888)	--
Grant receivable	(165,000)	--
ReStore inventory	(9,114)	(9,273)
Prepaid expenses	759	4,017
Revolving loan pool receivable	4,450	1,750
Increase (Decrease) in Liabilities		
Loan fees amortization	386	386
Deferred grant income	--	(65,500)
Accounts payable and accrued liabilities	30,644	19,923
Net Cash Provided (Used) by Operating Activities	1,177,056	(694,442)
Net Cash Flow from Investing Activities		
Property and equipment purchases	(17,664)	(3,439)
Sioux Falls Area Community Foundation endowment	1,375	1,385
Payments received on contracts for deed/mortgage loans	430,893	388,944
Net Cash Provided by Investing Activities	414,604	386,890
Net Cash Flows Provided by Financing Activities		
Proceeds from long term debt	465,000	306,500
Proceeds from paycheck protection program loan	--	120,722
Principal payments on long term debt	(27,468)	(32,989)
Net Cash Provided By Financing Activities	437,532	394,233
Net Increase in Cash and Cash Equivalents	2,029,192	86,681
Cash and Cash Equivalents, Beginning of Year	1,609,176	1,522,495
Cash and Cash Equivalents, End of Year	\$ 3,638,368	\$ 1,609,176

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Schedule of Noncash Investing and Financing Activities		
Issuance of non-interest bearing mortgages	\$ 897,851	\$ 558,422
Community Development Block Grant and South Dakota Housing Development Authority debt transferred to home buyers	465,000	306,500
In-kind Contributions	166,941	146,234
Interest Paid	--	--

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, 2022 and 2021

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 for the years ended June 30, 2022 and 2021.

Revenue Recognition: The Habitat's revenue is derived primarily from grants and donations as well as mortgage payments from contracts with recipients of affordable homes. These contracts can be written or implied. Habitat allocates the transaction price to each performance obligation. Habitat recognizes the revenue for each performance obligation at the point in time when the obligation was fulfilled, or a grant or donation was received.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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. Expenses are allocated among the various activities by direct identification of expenses, if possible and by management when direct identification is not possible. The financial statements report certain categories of expenses that are attributable to more than one program or function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are based on estimations of time and effort and square footage of space.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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,	
	<u>Useful Lives</u>	<u>2022</u>	<u>2021</u>
Warehouse facility	39	\$ 2,210,629	\$ 2,201,760
Land	-	156,755	156,755
Land improvements	15	68,949	68,949
Equipment	5-7	294,906	288,604
		<u>\$ 2,731,239</u>	<u>\$ 2,716,068</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, 2022 and 2021, 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 2, 2022 the date the financial statements were available to be issued.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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.

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash	\$ 3,638,368	\$ 1,609,176
Restricted Cash	417,371	390,905
Accounts receivable	3,159	8,271
Mortgage receivable	4,190,330	3,923,774
Revolving loan pool receivable	3,850	8,300
Beneficial interest in Sioux Falls Area Community Foundation	32,749	39,508
Total financial assets	<u>8,285,827</u>	<u>5,979,934</u>
Restricted endowment investments	10,461	10,461
Revolving loan pool receivable	3,850	8,300
Less note receivables with liquidity horizons greater than one year	3,991,750	3,745,525
Cash restricted to escrow deposits	<u>417,371</u>	<u>390,905</u>
Amounts available for general expenditure within one year	<u>\$ 3,862,395</u>	<u>\$ 1,824,743</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 \$113,917 and \$9,908 during the years ended June 30, 2022 and 2021 and are included as program services expenses.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Mortgage receivables	\$ 7,335,368	\$ 6,858,423
Discount on mortgage receivables	<u>(3,145,038)</u>	<u>(2,934,649)</u>
Net mortgage receivables	<u>\$ 4,190,330</u>	<u>\$ 3,923,774</u>

Mortgage receivables/maturities as of June 30, 2022, consist of the following:

<u>Year Ended</u>	<u>Mortgage Receivable</u>	<u>Discount Amortization</u>	<u>Net</u>
2023	\$ 355,098	\$ (156,518)	\$ 198,580
2024-2028	1,754,987	(759,570)	995,417
Thereafter	5,225,283	(2,228,950)	2,996,333
Total	<u>\$ 7,335,368</u>	<u>\$ (3,145,038)</u>	<u>\$ 4,190,330</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, 2022 and 2021 was \$82,787 and \$72,445, respectively.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

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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:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 314,602	\$ 292,583
Escrow deposits received	108,070	125,601
Escrow payments	(88,088)	(103,582)
Ending balance	<u>\$ 334,584</u>	<u>\$ 314,602</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 \$32,749 as of June 30, 2022 and \$39,508 as of June 30, 2021. 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 \$50 as of June 30, 2022 and \$-0- as of June 30, 2021.

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, 2022:

	<u>Fair Value</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets Held by Community Foundation	\$ 32,749	\$ 32,749
	<u>\$ 32,749</u>	<u>\$ 32,749</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, 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>

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 years ended June 30, 2022 and 2021, respectively.

The following table provides a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3).

Beneficial interest in assets held by community foundation:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 39,508	\$ 32,756
Contributions	50	--
Investment fees	(297)	(281)
Unrealized gains relating to instruments still held at reporting date	(5,137)	8,381
Payments from Community Foundation	(1,375)	(1,348)
Balance, end of year	<u>\$ 32,749</u>	<u>\$ 39,508</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

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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, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beneficial interest in assets held by Community Foundation July 1, 2021	\$ 29,047	\$ 10,461	\$ 39,508
Contributions	50	--	50
Investment fees	(297)	--	(297)
Investment appreciation	(5,137)	--	(5,137)
Appropriation for expenditure	(1,375)	--	(1,375)
Balance, June 30, 2022	<u>\$ 22,288</u>	<u>\$ 10,461</u>	<u>\$ 32,749</u>

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>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Participation loans		
Note payable to bank at 0% interest in monthly payments of \$288 through December, 2032	\$ 35,651	\$ 39,102
Note payable to bank at 0% interest in monthly payments of \$372 through December, 2032	84,360	88,941
Note payable to bank at 0% interest in monthly payments of \$290 through December, 2032	67,665	71,148
Note payable to bank at 0% interest in monthly payments of \$222 through December, 2028	17,223	19,673
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$243 through August, 2029	20,058	22,979
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$260 through September, 2030	23,879	27,002
Note Payable to bank at 0% interest in monthly payments of \$298 through January 2043	73,403	76,983
Note Payable to bank at 0% interest in monthly payments of \$314 through November 2042	<u>75,947</u>	<u>79,712</u>
Total participation loans	<u>398,186</u>	<u>425,540</u>
Less debt issuance costs	<u>(272)</u>	<u>(658)</u>
Total long term debt	<u>\$ 397,914</u>	<u>\$ 424,882</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

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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 \$398,186 and \$425,540 as of June 30, 2022 and 2021, respectively.

Long-Term debt maturities at June 30, 2022 are as follows:

2023	\$	27,586
2024		27,858
2025		27,858
2026		27,858
2027		27,858
Thereafter		<u>258,896</u>
Total	\$	<u><u>397,914</u></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 \$12,448 and \$11,828 for the years ended June 30, 2022 and 2021.

11. Line of Credit:

Habitat has a \$250,000 unsecured operating line of credit which had a balance of \$0 for years ended June 30, 2022 and 2021. The line of credit matures on March 31, 2023 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 for the years ended June 30, 2022 and 2021.

12. Net Assets with Donor Restrictions:

Net assets with donor restrictions are as follows:

	<u>2022</u>	<u>2021</u>
Purpose - Home build projects	\$ --	\$ 132,146
Endowment	10,461	10,461
Purpose - Neighborhood Revitalization Initiative	82,431	1,500
Purpose - Native American family	<u>28,591</u>	<u>28,591</u>
	<u>\$ 121,483</u>	<u>\$ 172,698</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

12. Net Assets with Donor Restrictions: (Continued)

Net assets were released from donor restrictions as follows:

	<u>2022</u>	<u>2021</u>
Purpose restrictions accomplished		
Home build projects	\$ 1,271,527	\$ 823,923
Neighborhood Revitalization Initiative	21,266	4,538
Total	<u>\$ 1,292,793</u>	<u>\$ 828,461</u>

13. Paycheck Protection Program (PPP) Loan

In April 2020 and February 2021, Habitat received loan proceeds totaling \$117,685 and \$120,722, respectively, under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid Relief, and Economic Security Act (“CARES Act”), provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loan proceeds for eligible purposes, including payroll, benefits, rents, utilities, and maintains its payroll levels within parameters.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Association used the proceeds for purposes consistent with the PPP.

The PPP loan has been wholly forgiven as of the date of this audit report.

Habitat has chosen to account for the PPP program as a loan initially. Habitat recorded a gain on extinguishment of debt in the amount of \$120,722 and \$117,685 during the years ended June 30, 2022, and 2021, respectively.

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.

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15. 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.

16. Reclassifications:

Certain items in the financial statements for 2021 have been reclassified to conform with the current year presentation. Such classifications had no effect on net income.