

Habitat for Humanity of Greater Sioux Falls, Inc.

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

**For the Years Ended
June 30, 2024 and 2023**

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, 2024 and 2023, 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, 2024 and 2023, 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
January 13, 2025

Habitat for Humanity of Greater Sioux Falls, Inc.

Statements of Financial Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Cash	\$ 1,796,041	\$ 3,411,268
Restricted cash for escrow deposits	471,663	429,984
Certificates of deposit	750,000	--
Accrued interest receivable	18,025	--
Current portion of mortgage receivables	226,680	200,436
Construction in process	1,368,267	1,498,781
Lots in inventory	939,718	855,887
Restore inventory	18,691	28,202
Prepaid expenses	30,915	13,340
Total current assets	<u>5,620,000</u>	<u>6,437,898</u>
Property and Equipment		
Property and equipment	2,834,830	2,799,813
Less - accumulated depreciation	<u>(1,326,974)</u>	<u>(1,236,734)</u>
Net property and equipment	<u>1,507,856</u>	<u>1,563,079</u>
Other Assets		
Revolving loan pool receivable	1,600	2,600
Beneficial interest in Sioux Falls Area Community Foundation	36,242	34,175
Long-term mortgage receivable (net of current portion)	<u>4,408,870</u>	<u>3,899,435</u>
Total other assets	<u>4,446,712</u>	<u>3,936,210</u>
	<u>\$ 11,574,568</u>	<u>\$ 11,937,187</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, 2024 and 2023 (Continued)

	<u>2024</u>	<u>2023</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 121,315	\$ 176,909
Current portion of long term debt	24,407	27,586
Homeowner escrow deposits		
Taxes, maintenance, and insurance	88,144	65,083
Community Development Block Grant loan escrow	383,530	364,896
Total Current Liabilities	<u>617,396</u>	<u>634,474</u>
Long-Term Debt, net of current maturities	<u>289,873</u>	<u>343,023</u>
Total Liabilities	<u>907,269</u>	<u>977,497</u>
Net Assets		
Without donor restrictions	10,640,350	10,883,929
With donor restrictions	26,949	75,761
Total Net Assets	<u>10,667,299</u>	<u>10,959,690</u>
	<u>\$ 11,574,568</u>	<u>\$ 11,937,187</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, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Contributions			
Businesses	\$ 40,083	\$ 204,327	\$ 244,410
Individuals	54,485	10,632	65,117
In-kind contributions	--	83,552	83,552
Special campaigns or events	148,758	--	148,758
Foundations and grants	--	564,750	564,750
Churches	10,248	--	10,248
Total contributions	<u>253,574</u>	<u>863,261</u>	<u>1,116,835</u>
Homeowner Activity			
Transfer to homeowners	2,099,109	--	2,099,109
Mortgage discounts amortization	411,001	--	411,001
Total homeowner activity	<u>2,510,110</u>	<u>--</u>	<u>2,510,110</u>
Restore Revenues	904,146	--	904,146
Other Revenues			
Interest	95,921	--	95,921
Investment return	3,471	--	3,471
Second mortgage	8,729	--	8,729
Miscellaneous	32,310	--	32,310
Total other revenues	<u>140,431</u>	<u>--</u>	<u>140,431</u>
Total revenue and other support	<u>3,808,261</u>	<u>863,261</u>	<u>4,671,522</u>
Net assets released from donor restrictions			
Satisfaction and expiration of restrictions	912,073	(912,073)	--
Total revenues from operations	<u>4,720,334</u>	<u>(48,812)</u>	<u>4,671,522</u>
Expenses			
Program expenses	4,718,230	--	4,718,230
Management and general	157,069	--	157,069
Fundraising	88,614	--	88,614
Total Expenses	<u>4,963,913</u>	<u>--</u>	<u>4,963,913</u>
Change in Net Assets	(243,579)	(48,812)	(292,391)
Net Assets, Beginning of Year	10,883,929	75,761	10,959,690
Net Assets, End of Year	<u>\$ 10,640,350</u>	<u>\$ 26,949</u>	<u>\$ 10,667,299</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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Contributions			
Businesses	\$ 41,010	\$ 254,823	\$ 295,833
Individuals	47,588	8,495	56,083
In-kind contributions	--	196,559	196,559
Special campaigns or events	137,516	--	137,516
Foundations and grants	--	300,300	300,300
Churches	6,477	--	6,477
Total Contributions	<u>232,591</u>	<u>760,177</u>	<u>992,768</u>
Homeowner Activity			
Transfer to homeowners	498,761	--	498,761
Mortgage discounts amortization	159,127	--	159,127
Total homeowner activity	<u>657,888</u>	<u>--</u>	<u>657,888</u>
Restore revenues	949,090	--	949,090
Other revenues			
Interest	25,209	--	25,209
Investment return	2,824	--	2,824
Second mortgage	5,049	--	5,049
Miscellaneous	48,811	--	48,811
Total other revenues	<u>81,893</u>	<u>--</u>	<u>81,893</u>
Total revenue and other support	<u>1,921,462</u>	<u>760,177</u>	<u>2,681,639</u>
Net assets released from donor restrictions			
Satisfaction and expiration of restrictions	805,899	(805,899)	--
Total revenues from operations	<u>2,727,361</u>	<u>(45,722)</u>	<u>2,681,639</u>
Expenses			
Program expenses	2,269,211	--	2,269,211
Management and general	209,322	--	209,322
Fundraising	86,298	--	86,298
Total expenses	<u>2,564,831</u>	<u>--</u>	<u>2,564,831</u>
Change in Net Assets	162,530	(45,722)	116,808
Net Assets, Beginning of Year	10,721,399	121,483	10,842,882
Net Assets, End of Year	<u>\$ 10,883,929</u>	<u>\$ 75,761</u>	<u>\$ 10,959,690</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, 2024

Expenses	<u>Restore Activity</u>	<u>Affiliate Activity</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Construction and sale costs-sold homes	\$ --	\$ 2,071,920	\$ 2,071,920	\$ --	\$ --	\$ 2,071,920
Mortgage discounts contributed	--	1,187,672	1,187,672	--	--	1,187,672
Salaries and wages	441,250	334,793	776,043	83,877	41,101	901,021
Payroll taxes and employee benefits	58,312	44,833	103,145	9,201	4,079	116,425
Insurance	20,618	63,083	83,701	11,680	--	95,381
Cost of goods sold - purchased inventory	94,121	--	94,121	--	--	94,121
Depreciation	42,412	46,022	88,434	902	902	90,238
Warehouse expense	58,764	27,032	85,796	3,790	249	89,835
Professional services	8,289	33,424	41,713	34,286	--	75,999
Printing, promotion, volunteer recognition	15,929	49,110	65,039	4,624	1,541	71,204
Vehicle, travel, and training costs	19,143	28,009	47,152	2,309	--	49,461
Fundraising	--	--	--	--	39,120	39,120
Office supplies and expense	13,559	14,732	28,291	4,603	1,474	34,368
Neighborhood initiative materials	--	25,020	25,020	--	--	25,020
Tithe to Habitat for Humanity	--	8,818	8,818	--	--	8,818
Telephone	3,431	4,025	7,456	1,353	--	8,809
Miscellaneous	186	2,860	3,046	444	148	3,638
House warranty expense	--	863	863	--	--	863
Total Expenses	<u>\$ 776,014</u>	<u>\$ 3,942,216</u>	<u>\$ 4,718,230</u>	<u>\$ 157,069</u>	<u>\$ 88,614</u>	<u>\$ 4,963,913</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, 2023

Expenses	<u>Restore Activity</u>	<u>Affiliate Activity</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 372,276	\$ 275,863	\$ 648,139	\$ 78,974	\$ 38,692	\$ 765,805
Construction and sale costs-sold homes	--	637,846	637,846	--	--	637,846
Mortgage discounts contributed	--	271,833	271,833	--	--	271,833
Printing, promotion, volunteer recognition	38,625	90,859	129,484	11,214	3,739	144,437
Professional services	7,617	31,454	39,071	88,893	--	127,964
Warehouse expense	66,124	23,152	89,276	4,848	306	94,430
Payroll taxes and employee benefits	42,441	38,064	80,505	8,643	3,853	93,001
Depreciation	43,251	46,932	90,183	920	920	92,023
Cost of goods sold - purchased inventory	75,378	--	75,378	--	--	75,378
Insurance	14,893	40,351	55,244	7,365	--	62,609
Neighborhood initiative materials	--	55,350	55,350	--	--	55,350
Vehicle, travel, and training costs	21,793	23,378	45,171	2,920	--	48,091
Office supplies and expense	12,652	21,005	33,657	3,955	538	38,150
Fundraising	--	--	--	--	38,108	38,108
Tithe to Habitat for Humanity	--	7,732	7,732	--	--	7,732
Telephone	2,872	3,443	6,315	1,174	--	7,489
Miscellaneous	828	2,706	3,534	416	142	4,092
Interest expense	--	294	294	--	--	294
House warranty expense	--	199	199	--	--	199
Total Expenses	<u>\$ 698,750</u>	<u>\$ 1,570,461</u>	<u>\$ 2,269,211</u>	<u>\$ 209,322</u>	<u>\$ 86,298</u>	<u>\$ 2,564,831</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (292,391)	\$ 116,808
Charges and Credits to Net Income Not Affecting Cash		
Depreciation	90,238	92,023
Mortgages transferred to homeowner (net discounts)	(911,437)	(226,928)
CDBG and SDHDA transferred to homeowners	(430,000)	(214,500)
Mortgage loan discount amortization	(411,001)	(159,127)
Net appreciation in fair value of investments	(3,471)	(2,824)
(Increase) Decrease in assets		
Lots in inventory	(83,831)	(202,085)
Construction in process	130,514	(687,293)
Accounts receivable	--	3,159
Employee retention credit receivable	--	259,888
Grant receivable	--	165,000
Interest receivable	(18,025)	--
ReStore inventory	9,511	(2,620)
Prepaid expenses	(17,575)	414
Revolving loan pool receivable	1,000	1,250
Increase (Decrease) in Liabilities		
Loan fees amortization	--	272
Revolving loan pool payable	--	--
Accounts payable and accrued liabilities	(55,594)	33,209
Net Cash (Used) by Operating Activities	<u>(1,992,062)</u>	<u>(823,354)</u>
Net Cash Flow from Investing Activities		
Property and equipment purchases	(35,015)	(45,129)
Sioux Falls Area Community Foundation endowment	1,404	1,398
Payments received on contracts for deed/mortgage loans	786,775	453,062
Purchase of certificate of deposit	(750,000)	--
Net Cash Provided by Investing Activities	<u>3,164</u>	<u>409,331</u>
Net Cash Flows Provided by Financing Activities		
Proceeds from long term debt	430,000	214,500
Principal payments on long term debt	(56,329)	(27,577)
Net Cash Provided By Financing Activities	<u>373,671</u>	<u>186,923</u>
Net (Decrease) in Cash and Cash Equivalents	(1,615,227)	(227,100)
Cash and Cash Equivalents, Beginning of Year	3,411,268	3,638,368
Cash and Cash Equivalents, End of Year	<u>\$ 1,796,041</u>	<u>\$ 3,411,268</u>

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, 2024 and 2023

	2024	2023
Schedule of Noncash Investing and Financing Activities		
Issuance of non-interest bearing mortgages	\$ 2,099,109	\$ 498,761
Community Development Block Grant and South Dakota Housing Development Authority debt transferred to home buyers	430,000	214,500
In-kind Contributions	83,552	196,559
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, 2024 and 2023

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, 2024 and 2023.

Revenue Recognition: 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, 2024 and 2023

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, 2024 and 2023

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	2024	2023
Warehouse facility	39	\$ 2,220,964	\$ 2,210,629
Land	-	156,755	156,755
Land improvements	15	68,949	68,949
Equipment	5-7	388,162	363,480
		<u>\$ 2,834,830</u>	<u>\$ 2,799,813</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, 2024 and 2023, amortized mortgage financing costs and loan discounts were \$0 and \$272, respectively, and are included in interest expense.

Leases: Habitat determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. Habitat does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Habitat recognizes lease liabilities and corresponding assets with initial, individual value of \$25,000 or more.

Habitat implemented FASB ASC 842, leases, in 2023. The implementation of this standard has no effect on net assets.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

1. Significant Accounting Policies: (Continued)

Mortgage Receivables, Net: Mortgage receivables that are issued at below market interest rates are initially recorded at fair market value by discounting the receivable balance. The discount is then amortized into income over the life of the loan receivable using the effective interest method. The allowance for credit losses on mortgage receivables is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the financial statement date. Mortgage losses are charged off against the allowance for credit losses on mortgages when Habitat determines the mortgage balance to be uncollectable. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on mortgages.

In determining the amount of the allowance for credit losses, Habitat considers historical collectability based on past due status and make judgments about the creditworthiness of mortgagor based on ongoing credit evaluations. We also consider mortgagor-specific information, current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. The allowance for credit losses was \$0 on June 30, 2024 and 2023.

Implementation of New Accounting Standards: In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-13 ("ASU 2016-13") "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, including loans, trade accounts receivable, and certain off-balance sheet commitments. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to certain available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes result in earlier recognition of credit losses. We adopted ASU 2016-13 using the modified retrospective approach as of July 1, 2023. The cumulative effect upon adoption was not material to our financial statements. See "Mortgage Receivables, Net" above as well.

Subsequent Events: Habitat has evaluated subsequent events through January 13, 2025 the date the financial statements were available to be issued.

2. 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 \$8,818 and \$7,732 during the years ended June 30, 2024 and 2023 and are included as program services expenses.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

3. 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.

	2024	2023
Financial Assets:		
Cash	\$ 1,796,041	\$ 3,411,268
Restricted cash	471,663	429,984
Certificates of deposit	750,000	--
Mortgage receivable	4,635,550	4,099,871
Revolving loan pool receivable	1,600	2,600
Beneficial interest in Sioux Falls Area Community Foundation	36,242	34,175
Total financial assets	7,691,096	7,977,898
Endowment investments	36,242	34,175
Revolving loan pool receivable	1,600	2,600
Less note receivables with liquidity horizons greater than one year	4,408,870	3,899,435
Cash restricted to escrow deposits	471,663	429,984
Amounts available for general expenditure within one year	\$ 2,772,721	\$ 3,611,704

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).

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.

	2024	2023
Mortgage receivables	\$ 8,669,965	\$ 7,357,616
Discount on mortgage receivables	(4,034,415)	(3,257,744)
Net mortgage receivables	\$ 4,635,550	\$ 4,099,872

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

4. Mortgage Receivable: (Continued)

Mortgage receivables/maturities as of June 30, 2024, consist of the following:

<u>Year Ended</u>	<u>Mortgage Receivable</u>	<u>Discount Amortization</u>	<u>Net</u>
2025	\$ 411,099	\$ (184,419)	\$ 226,680
2025-2030	2,037,191	(913,230)	1,123,961
Thereafter	6,221,675	(2,936,766)	3,284,909
Total	<u>\$ 8,669,965</u>	<u>\$ (4,034,415)</u>	<u>\$ 4,635,550</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 credit losses has been recorded and there has been no activity in the allowance for credit losses for the years ended June 30, 2024 and 2023.

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, 2024 and 2023 was \$88,144 and \$65,082, respectively.

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.

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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

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:

	2024	2023
Beginning balance	\$ 364,896	\$ 334,584
Escrow deposits received	125,895	123,458
Escrow payments	(107,261)	(93,146)
Ending balance	<u>\$ 383,530</u>	<u>\$ 364,896</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 \$36,242 as of June 30, 2024 and \$34,174 as of June 30, 2023. 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, 2024 and \$0 as of June 30, 2023.

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, 2024:

	Fair Value	Significant Unobservable Inputs (Level 3)
Beneficial interest in assets Held by Community Foundation	\$ 36,242	\$ 36,242
	<u>\$ 36,242</u>	<u>\$ 36,242</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

7. Fair Value Measurement: (Continued)

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, 2023:

	<u>Fair Value</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Beneficial interest in assets Held by Community Foundation	\$ 34,175	\$ 34,175
	<u>\$ 34,175</u>	<u>\$ 34,175</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, 2024 and 2023, 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>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 34,175	\$ 32,749
Contributions	--	--
Investment fees	(269)	(254)
Unrealized gains relating to instruments still held at reporting date	3,740	3,078
Payments from Community Foundation	(1,404)	(1,398)
Balance, end of year	<u>\$ 36,242</u>	<u>\$ 34,175</u>

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 for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

8. Endowment Funds: (Continued)

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, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Beneficial interest in assets held by Community Foundation July 1, 2023	\$ 23,714	\$ 10,461	\$ 34,175
Contributions	--	--	--
Investment fees	(269)	--	(269)
Investment appreciation	3,740	--	3,740
Appropriation for expenditure	(1,404)	--	(1,404)
Balance, June 30, 2024	<u>\$ 25,781</u>	<u>\$ 10,461</u>	<u>\$ 36,242</u>

The following summarizes the endowment fund held by Habitat as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Beneficial interest in assets held by community foundation July 1, 2022	\$ 22,288	\$ 10,461	\$ 32,749
Investment fees	(254)	--	(254)
Investment appreciation	3,078	--	3,078
Appropriation for expenditure	(1,398)	--	(1,398)
Balance, June 30, 2023	<u>\$ 23,714</u>	<u>\$ 10,461</u>	<u>\$ 34,175</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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Participation loans		
Note payable to bank at 0% interest in monthly payments of \$288 through December, 2032	\$ --	\$ 32,201
Note payable to bank at 0% interest in monthly payments of \$372 through December, 2032	75,199	79,779
Note payable to bank at 0% interest in monthly payments of \$290 through December, 2032	60,699	64,182
Note payable to bank at 0% interest in monthly payments of \$222 through December, 2028	11,878	14,551
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$243 through August, 2029	14,214	17,136
Note payable to South Dakota Development Authority at 0% interest in monthly payments of \$260 through September, 2030	17,632	20,756
Note Payable to bank at 0% interest in monthly payments of \$298 through January 2043	66,241	69,822
Note Payable to bank at 0% interest in monthly payments of \$314 through November 2042	<u>68,417</u>	<u>72,182</u>
Total participation loans	<u>314,280</u>	<u>370,609</u>
Less debt issuance costs	<u>--</u>	<u>(272)</u>
Total long term debt	<u>\$ 314,280</u>	<u>\$ 370,337</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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 \$314,280 and \$370,609 as of June 30, 2024 and 2023, respectively.

Long-Term debt maturities at June 30, 2024 are as follows:

2025	\$	24,407
2026		24,407
2027		24,407
2028		24,407
2029		22,425
Thereafter		194,227
Total	\$	<u>314,280</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 \$12,648 and \$11,518 for the years ended June 30, 2024 and 2023.

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, 2024 and 2023. The line of credit matures on March 31, 2025 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, 2024 and 2023.

12. Net Assets with Donor Restrictions:

Net assets with donor restrictions are as follows:

	<u>2024</u>	<u>2023</u>
Endowment	\$ 10,461	\$ 10,461
Purpose - Neighborhood Revitalization Initiative	16,488	36,709
Purpose - Native American family	--	28,591
	<u>\$ 26,949</u>	<u>\$ 75,761</u>

Habitat for Humanity of Greater Sioux Falls, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

12. Net Assets with Donor Restrictions: (Continued)

Net assets were released from donor restrictions as follows:

	<u>2024</u>	<u>2023</u>
Purpose restrictions accomplished		
Home build projects	\$ 838,666	\$ 742,127
Native American family	28,591	--
Neighborhood Revitalization Initiative	44,816	63,772
Total	<u>\$ 912,073</u>	<u>\$ 805,899</u>