

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**HABITAT FOR HUMANITY OF
FLATHEAD VALLEY, INC.**

JUNE 30, 2022 AND 2021



HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Habitat for Humanity of Flathead Valley, Inc.
Kalispell, MT

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Flathead Valley, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Flathead Valley, 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.

Responsibility of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Flathead Valley, 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 Flathead Valley, 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 Flathead Valley, 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 were identified during the audit.

Junkermier, Clark, Campanella, Stevens, P.C.

Kalispell, Montana
February 2, 2023

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 164,407	\$ 786,446
Investments	86,515	263,291
Grants receivable	40,000	-
Inventory	24,373	30,549
Other current assets	<u>11,902</u>	<u>19,880</u>
TOTAL CURRENT ASSETS	<u>327,197</u>	<u>1,100,166</u>
FIXED ASSETS		
Fixed assets	1,288,012	77,054
Less: Accumulated depreciation	<u>(76,372)</u>	<u>(54,487)</u>
NET FIXED ASSETS	<u>1,211,640</u>	<u>22,567</u>
OTHER ASSETS		
Construction in progress	1,120,649	1,158,829
Investments in real estate	455,162	351,029
Endowment - investments	62,211	69,658
Mortgages receivable, net	<u>725,205</u>	<u>624,571</u>
TOTAL OTHER ASSETS	<u>2,363,227</u>	<u>2,204,087</u>
TOTAL ASSETS	<u>\$ 3,902,064</u>	<u>\$ 3,326,820</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 46,341	\$ 39,028
Other current liabilities	<u>17,649</u>	<u>26,264</u>
TOTAL CURRENT LIABILITIES	63,990	65,292
LONG-TERM LIABILITIES		
Notes payable - long-term	<u>989,051</u>	<u>305,421</u>
TOTAL LIABILITIES	<u>1,053,041</u>	<u>370,713</u>
NET ASSETS		
Without donor restrictions	2,843,406	2,951,569
With donor restrictions	<u>5,617</u>	<u>4,538</u>
TOTAL NET ASSETS	<u>2,849,023</u>	<u>2,956,107</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,902,064</u>	<u>\$ 3,326,820</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants	\$ 35,306	\$ 63,580	\$ 98,886
Contributions	56,932	6,215	63,147
Fundraising	216	-	216
Sale of homes, net	495,764	-	495,764
Contributions of nonfinancial assets	472,979	-	472,979
ReStore sales	538,089	-	538,089
Mortgage discount amortization	43,294	-	43,294
Net investment income	(8,526)	-	(8,526)
Other income	18,494	-	18,494
Gain (loss) on sale of assets	1,050	-	1,050
Gain (loss) on debt extinguishment	95,818	-	95,818
Net assets released from restriction - satisfied by use	68,716	(68,716)	-
TOTAL SUPPORT AND REVENUE	1,818,132	1,079	1,819,211
EXPENSES			
Program services	1,694,299	-	1,694,299
Administrative and general	207,001	-	207,001
Fundraising	24,995	-	24,995
TOTAL EXPENSES	1,926,295	-	1,926,295
CHANGE IN NET ASSETS	(108,163)	1,079	(107,084)
NET ASSETS - BEGINNING OF YEAR	2,951,569	4,538	2,956,107
NET ASSETS - END OF YEAR	\$ 2,843,406	\$ 5,617	\$ 2,849,023

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 264,343	\$ 43,557	\$ 307,900
Contributions	26,568	617	27,185
Sale of homes, net	31,260	-	31,260
Contributions of nonfinancial assets	489,712	-	489,712
ReStore sales	580,227	-	580,227
Mortgage discount amortization	41,849	-	41,849
Net investment income	18,633	-	18,633
Other income	4,517	-	4,517
Gain (loss) on sale of assets	(5,228)	-	(5,228)
Gain (loss) on debt extinguishment	80,700	-	80,700
Net assets released from restriction - satisfied by use	<u>43,557</u>	<u>(43,557)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,576,138</u>	<u>617</u>	<u>1,576,755</u>
EXPENSES			
Program services	1,112,332	-	1,112,332
Administrative and general	178,738	-	178,738
Fundraising	<u>25,456</u>	<u>-</u>	<u>25,456</u>
TOTAL EXPENSES	<u>1,316,526</u>	<u>-</u>	<u>1,316,526</u>
CHANGE IN NET ASSETS	259,612	617	260,229
NET ASSETS - BEGINNING OF YEAR	<u>2,691,957</u>	<u>3,921</u>	<u>2,695,878</u>
NET ASSETS - END OF YEAR	<u>\$ 2,951,569</u>	<u>\$ 4,538</u>	<u>\$ 2,956,107</u>

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED JUNE 30, 2022

	Construction and ReStore Program Services	Administrative and General Expenses	Fundraising Costs	Total
Advertising	\$ 14,828	\$ -	\$ -	\$ 14,828
Construction tools and supplies	1,662	-	-	1,662
Depreciation	21,884	-	-	21,884
Employee benefits	11,549	14,436	2,887	28,872
Insurance - other	4,117	5,846	-	9,963
Insurance - workers' comp	9,766	4,185	-	13,951
Interest	2,246	962	-	3,208
Meals	201	251	50	502
Office and administrative	4,564	41,072	-	45,636
Payroll taxes	5,970	7,463	1,493	14,926
Professional fees	11,930	27,836	-	39,766
Rent office	4,333	5,417	1,083	10,833
Salaries and wages	77,927	97,410	19,482	194,819
Tithe for Habitat International	8,452	-	-	8,452
Utilities and telephone	-	2,123	-	2,123
Debt discounts on mortgages issued	584,421	-	-	584,421
ReStore - in-kind donations	472,979	-	-	472,979
ReStore - cost of goods sold	48,789	-	-	48,789
ReStore - rent expense	42,970	-	-	42,970
ReStore - salaries and wages	246,611	-	-	246,611
ReStore - all other expenses	<u>119,100</u>	<u>-</u>	<u>-</u>	<u>119,100</u>
	<u>\$ 1,694,299</u>	<u>\$ 207,001</u>	<u>\$ 24,995</u>	<u>\$ 1,926,295</u>

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED JUNE 30, 2021

	Construction and ReStore Program Services	Administrative and General Expenses	Fundraising Costs	Total
Advertising	\$ 8,341	\$ -	\$ -	\$ 8,341
Construction tools and supplies	2,095	-	-	2,095
Depreciation	9,242	-	-	9,242
Employee benefits	9,807	12,259	2,452	24,518
Insurance - other	4,773	7,057	-	11,830
Insurance - workers' comp	8,961	3,840	-	12,801
Meals	198	248	50	496
Office and administrative	2,460	22,141	-	24,601
Payroll taxes	6,089	7,612	1,522	15,223
Professional fees	6,571	15,331	-	21,902
Rent office	8,417	10,521	2,104	21,042
Salaries and wages	77,311	96,640	19,328	193,279
Tithe for Habitat International	18,226	-	-	18,226
Utilities and telephone	-	3,089	-	3,089
ReStore - in-kind donations	485,712	-	-	485,712
ReStore - cost of goods sold	58,584	-	-	58,584
ReStore - rent expense	87,605	-	-	87,605
ReStore - salaries and wages	216,084	-	-	216,084
ReStore - all other expenses	<u>101,856</u>	<u>-</u>	<u>-</u>	<u>101,856</u>
	<u>\$ 1,112,332</u>	<u>\$ 178,738</u>	<u>\$ 25,456</u>	<u>\$ 1,316,526</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, 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	\$ (107,084)	\$ 260,229
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	21,884	9,242
(Gain)/loss on sale of fixed assets	(1,050)	5,228
(Gain)/loss on debt extinguishment	(95,818)	(80,700)
Realized and unrealized (gain)/loss on investments	10,198	(18,633)
Contributions of nonfinancial assets	-	(4,000)
Debt discounts on mortgages issued	(43,294)	(120,069)
(Increase) decrease in:		
Grants receivable	(40,000)	-
Other current assets	7,978	189
Inventory	6,176	27,865
Construction in progress	(51,820)	(684,858)
Increase (decrease) in:		
Accounts payable	7,315	(7,973)
Other current liabilities	(8,615)	(5,130)
NET CASH FROM OPERATING ACTIVITIES	(294,130)	(618,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	1,050	-
Purchase of fixed assets	(310,959)	(7,115)
Purchase of investments	69,892	(240,915)
Mortgages issued	(280,579)	-
Mortgage payments received	223,239	200,668
NET CASH FROM INVESTING ACTIVITIES	(297,357)	(47,362)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	(30,552)	-
Proceeds from note payable	-	185,421
NET CHANGE IN CASH	(622,039)	(480,551)
CASH - BEGINNING OF YEAR	786,446	1,266,997
CASH - END OF YEAR	\$ 164,407	\$ 786,446
NONCASH FINANCING AND INVESTING ACTIVITIES		
Real estate acquired through debt	\$ 900,000	\$ -
Debt transferred with home sale	\$ 90,000	\$ -

See Notes to Financial Statements

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity of Flathead Valley, Inc. (Organization) established in August 1989, is a Montana non-profit 501(c)(3) corporation located in Kalispell, Montana. The Organization was founded to build modest but adequate housing in partnership with community sponsors and volunteers for selected low-income families living in substandard conditions in the Flathead Valley. Habitat for Humanity of Flathead Valley, Inc. receives support from donations from local individuals, churches and businesses, grants, and from sales realized at the resale store (ReStore).

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America; whereby revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Accounting principles generally accepted in the United States of America require that the Organization reports information about its financial position and activities according to two classes of net assets: net assets with donor-imposed restrictions and net assets without donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Recognition of Paycheck Protection Program Loan Funds

In accordance with FASB ASC 470 *Debt*, the Organization has accounted for funds received from the Paycheck Protection Program (PPP) as loan proceeds. As such, based on the guidance in FASB ASC 405-20 *Liabilities - Extinguishments of Liabilities*, the loan will remain a liability until either (1) it is wholly or partially forgiven and the debtor has been legally released, or (2) it is paid off.

As of June 30, 2022 and 2021, loan proceeds in the amount of \$95,818 and \$80,700 were forgiven, respectively; and therefore, are reported as gains on extinguishment of debt on the respective statements of activities.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications have no effect on net assets or change in net assets as previously reported.

Tax Exempt Status

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is required. The Organization's tax returns are open to examination by the IRS, generally, for three years after they were filed or the due date of the return; whichever is later.

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.

Concentration of Risk

Significant donations and grants are received from several contributors. If any of these contributors were lost, a material impact to cash flows and operations would be realized. However, management believes building expenses would be adjusted and other sources of revenue would be attained to mitigate the impact of such lost contributors.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash on hand, operating accounts, savings accounts and certificates of deposit whose original maturity is three months or less to be cash equivalents.

Uninsured Cash Balances

The Organization maintains cash balances in various financial institutions. From time to time, those balances may exceed the FDIC insured limits.

Fair Values of Financial Instruments

The Organization's financial instruments include cash, investments, mortgages receivable, notes payable and various other instruments. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

Inventory

The vast majority of ReStore inventory is received by donation and recorded at fair market value determined by sale price at the time of sale. As such, no inventory value is recorded in the accompanying financial statements for donated inventory as of June 30, 2022 and 2021. However, inventory such as paint, painting products, and rugs are purchased new for resale at the ReStore. This purchased inventory is stated at the lower of cost (first-in, first-out) or market and is included in the inventory account on the statement of financial position.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Depreciation of office furniture and equipment, vehicles, and tools is provided over the estimated useful lives of respective assets, usually 5-7 years, using the declining balance method, while depreciation of buildings is provided over the estimated useful life of 39 years using the straight-line method. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost. Assets that are retired or otherwise disposed of are removed. Cost and accumulated depreciation and any resulting gain or loss is recognized in the statement of activities for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Advertising

The cost of advertising is expensed as incurred.

Functional Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program, general and administrative, and fundraising expenses. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, wages, taxes, and benefits	Time and effort
Meals	Time and effort
Office and administrative	Historical usage
Insurance - workers compensation	Historical usage
Professional fees	Historical usage
Occupancy	Time and effort

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of Nonfinancial Assets

As required by generally accepted accounting principles, contributed service revenue results when donated services create or enhance financial assets or when they require specialized skills provided by people possessing those skills that would typically be purchased if not provided by donation. Donated professional services are valued at non-profit market rates for the services. Habitat for Humanity of Flathead Valley, Inc. has a substantial number of non-professional volunteers who donate a significant amount of time, primarily in the building of home. In accordance with FASB ASC 958-605, the value of these services is not reflected in the financial statements.

Various programs, help and support of daily operations of the ReStore and office, as well as for each house built, were provided by the general public. Those donated services have not been reflected in the accompanying financial statements because they did not meet the criteria for recognition. The Organization's management estimates that the volunteer hours per house built amount to around 3,500 volunteer hours. Currently, per week, around 100 - 150 volunteer hours are served in the ReStore.

Contributed goods for administrative or construction purposes are valued at their estimated fair value at the date of contribution. For the years ended June 30, 2022 and 2021, zero and \$1,000 of in-kind disposable goods for these purposes are reflected in the accompanying financial statements. Contributed fixed assets are valued at their estimated fair value at the date of contribution. Donated equipment for the years ended June 30, 2022 and 2021 amounted to zero and \$3,000, respectively. Contributed goods for resale in the ReStore are recognized at their fair value according to their realized sales value on the date of sale. For the years ended June 30, 2022 and 2021, \$472,979 and \$485,712 of in-kind disposable goods were donated to the ReStore. They are recorded at their ultimate sales price and reflected as such in the accompanying financial statements. Unless otherwise noted, all nonfinancial contributions were utilized in the Organization's construction and ReStore programs. Additionally, there were no donor imposed restrictions on contributed goods.

Revenue Recognition

The Organization follows FASB ASU 2014-09, *Revenue Recognition – Revenue from Contracts with Customers (Topic 606)*, which provides a framework for revenue recognition. ReStore Sales is the only source of revenue from exchange transactions and are determined to be single performance obligations satisfied at a point in time; when goods and services are provided to the customer. The transfer of ownership, risk, and rewards results in revenue recognition.

Sale of Homes

Sales revenue from homes sold are recorded at the effective sales price received by the Organization at the date of closing. The cost of the related homes is removed from construction in progress and recorded as cost of homes sold at the date of closing. Cost of the homes includes land, infrastructure, materials, professional services and an allocation of the construction site supervisor's salary. The difference between the sales prices and the cost of the homes sold is recognized as sale of homes, net in the accompanying financial statements.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale of Homes (Continued)

In January 2019, the Organization implemented an appreciation sharing policy for all new home owners that allows them to retain the home's appreciated value on a prorated basis. The vesting schedule is as follows:

<u>Year</u>	<u>Percent of Appreciated Value Retained by Owner</u>
Two years or less	0 %
Three years	20 %
Four years	40 %
Five years	60 %
Six years	80 %
Sevens years or more	100 %

New Accounting Pronouncement

In September of 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*. The new standard increases transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The ASU has been applied retrospectively to all periods presented.

NOTE 2 -- FAIR VALUE MEASUREMENTS

The Organization follows FASB ASC 820, which provides a framework for measuring fair value. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

FASB ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels are defined as follows:

Level 1 - observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 - observable inputs other than Level 1 that are based upon quoted market prices for similar assets or liabilities, based upon quoted prices within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 2 -- FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 - inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities itemized below were measured at fair value during the years ended using the market and income approaches. The market approach was used for Level 1 and Level 2. The income approach was used for Level 3.

		Fair Value Measurements Using:			
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
June 30, 2022:					
Certificate of deposits	\$	86,515	\$ 86,515	\$ -	\$ -
Investments		<u>62,211</u>	<u>62,211</u>	<u>-</u>	<u>-</u>
	\$	<u><u>148,726</u></u>	<u><u>148,726</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
		Fair Value Measurements Using:			
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
June 30, 2021:					
Certificate of deposits	\$	263,291	\$ 263,291	\$ -	\$ -
Investments		<u>69,658</u>	<u>69,658</u>	<u>-</u>	<u>-</u>
	\$	<u><u>332,949</u></u>	<u><u>332,949</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

NOTE 3 -- INVESTMENTS IN REAL ESTATE

Investments in real estate are long-lived assets carried at cost. The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is evaluated by comparing an asset's carrying value to the undiscounted estimated cash flows expected from the asset's operations and eventual disposition. If the sum of the undiscounted estimated future cash flows is less than the carrying value of the asset, an impairment loss is recognized based on the fair value of the asset. If impairment occurs, the fair value of an asset is deemed to be the amount a willing buyer would pay a willing seller for such asset in a current transaction. Gains and losses related to the sale of real estate are included in the sale of homes income on the statement of activities.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 4 -- CONSTRUCTION IN PROGRESS

Construction in progress consists of costs related to homes being built. The following is a listing of construction in progress as of June 30, by component:

	<u>2022</u>	<u>2021</u>
Land	\$ 469,443	\$ 568,624
Construction materials and professional fees	<u>651,206</u>	<u>590,205</u>
Total construction in progress	<u>\$ 1,120,649</u>	<u>\$ 1,158,829</u>

NOTE 5 -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 120,000	\$ -
Building	1,084,448	-
Computer and office equipment	1,615	1,615
Tools	24,961	24,961
ReStore vehicle and equipment	<u>56,988</u>	<u>50,478</u>
Total assets	1,288,012	77,054
Less: Accumulated depreciation	<u>(76,372)</u>	<u>(54,487)</u>
Net property and equipment	<u>\$ 1,211,640</u>	<u>\$ 22,567</u>

NOTE 6 -- SALE OF HOMES

Costs of homes transferred includes land, infrastructure, construction material and professional fees, and an allocation of the construction supervisor's salary. The sale price of the homes represents the fair market value at the closing date. Closing costs are paid by the Organization for the homeowner. Five homes were transferred for the year ended June 30, 2022, and one home was transferred in 2021. The sales price and the costs were as follows:

	<u>2022</u>	<u>2021</u>
Sale price of homes	\$ 1,238,975	\$ 31,260
Silent mortgages	(584,421)	-
Cost of homes	<u>(743,211)</u>	<u>-</u>
Sales of homes, net	<u>\$ (88,657)</u>	<u>\$ 31,260</u>

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2022 AND 2021

NOTE 7 -- MORTGAGES RECEIVABLE

Habitat for Humanity of Flathead Valley, Inc. constructs and then sells homes to qualifying families. Each family enters into two or three separate mortgages with periods between 30 to 40 years, but in general 30 years. The first mortgage is generally an amount to cover the construction costs invested by the Organization in the home. The first mortgage is either provided by the Organization alone or as a combination with an outside mortgagors such as the Montana Board of Housing. The second or third mortgage ("silent mortgage") is generally an amount estimated to represent volunteers' donated time in constructing the home and is the difference between the gross sales price (fair value of the home) and the first mortgage. The silent mortgage is a legal document attained by Habitat for Humanity of Flathead Valley, Inc. for protection of homeowners who may sell their home for a profit before the mortgage is paid off and to protect the homeowners by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage. In the event the homeowner sells the home before the first mortgage is paid in full, the mortgagee is obligated to pay the Organization not only the remaining balance of the first mortgage loan, but also the silent mortgages which are either decreased annually during the loan payment term or at maturity. Silent mortgages are not recorded in the accompanying financial statements as they are contingent assets.

The Organization holds mortgages on 19 homes as of June 30, 2022. No interest is charged to the home owners by the Organization, although for accounting purposes an interest rate is imputed and the mortgages are discounted with discounts being amortized over the life of the loan. Mortgage discount rates vary from 7.38% to 8.18% according to guidance provided by Habitat for Humanity International (HFHI).

Amounts are past due when not paid by the end of the following month. Various mortgages are past due as of June 30, 2022. In these situations, management works with the mortgagees to develop payment plans and bring their mortgages current. If the mortgagee is unable to do so, foreclosure proceedings will be pursued and the property with be sold to other accepted families with a corresponding mortgage receivable recorded. As of June 30, 2022 and 2021, the cumulative past due mortgage payments receivable amounted to \$2,396 and \$13,083 and the total underlying asset value of the mortgages were \$112,089 and \$242,467 respectively. Management believes all mortgages receivable are recoverable and no allowance for doubtful accounts has been provided as of June 30, 2022 and 2021.

Mortgages receivable and their discounted amounts will be received over the next five years ending June 30, as follows:

	<u>Mortgages</u>	<u>Discount</u>	<u>Net</u>
2023	\$ 74,625	\$ (33,802)	\$ 40,823
2024	74,625	(33,802)	40,823
2025	74,625	(33,802)	40,823
2026	74,625	(33,802)	40,823
2027	74,625	(33,802)	40,823
Thereafter	<u>1,022,074</u>	<u>(500,984)</u>	<u>521,090</u>
Total mortgage receivable discount and net	<u>\$ 1,395,199</u>	<u>\$ (669,994)</u>	<u>\$ 725,205</u>

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 8 -- NOTES PAYABLE

Notes payable at June 30, consist of the following:

	2022	2021
Note payable to Community Frameworks, bearing no interest rate, original value of \$15,000 each for four lots, payable on demand if qualifying homeowners do not reside in homes constructed with SHOP funds for 10 years. Loan to be forgiven in full on May 12, 2025.	\$ 75,000	\$ 75,000
Note payable to City of Columbia Falls, bearing no interest rate, original value of \$45,000 per home, payable on demand if qualifying homeowners do not reside in the home constructed with Montana Department of Commerce funds for 15 years. Loan to be forgiven in full on May 11, 2030.	45,000	135,000
U.S. Small Business Administration via Glacier Bank - Paycheck Protection Program note payable over a term of two years at 1% interest. Payments of principal and interest of \$4,541 due beginning November 2020 with a maturity date of April 2022. This loan was fully forgiven in 2022.	-	95,421
Note payable to Trail West Bank, bearing variable interest with an initial rate of 3%, initial payments are interest only followed by variable payment installments through maturity of January 2042 at which time any unpaid balance is due. This loan is secured by real estate.	<u>869,051</u>	<u>-</u>
Total notes payable	989,051	305,421
Less: Current portion	<u>-</u>	<u>-</u>
Notes payable, net of current portion	<u>\$ 989,051</u>	<u>\$ 305,421</u>

Future principal payments for the year ended June 30, are as follows:

2023	\$ -
2024	-
2025	-
2026	-
2027	18,531
Thereafter	<u>970,520</u>
Total Notes Payable	<u>\$ 989,051</u>

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2022 AND 2021

NOTE 9 -- NET ASSETS

Net assets with donor restrictions were as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Restricted for a specified purpose		
Building in Whitefish	\$ 3,921	\$ 3,921
Perpetually restricted net assets		
Endowment fund	<u>1,696</u>	<u>617</u>
Total net assets with donor-imposed restrictions	<u>\$ 5,617</u>	<u>\$ 4,538</u>

Net assets without donor restrictions were as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Quasi endowment -		
board designated	\$ 60,515	\$ 69,041
Undesignated	<u>2,782,891</u>	<u>2,882,528</u>
Total net assets without donor-imposed restrictions	<u>\$ 2,843,406</u>	<u>\$ 2,951,569</u>

NOTE 10 -- RELATED PARTIES

Habitat for Humanity of Flathead Valley, Inc. is an affiliate of Habitat for Humanity International (HFHI). The Organization receives grants and loans from Habitat International, from time to time, as well as donations from other donors/grantors who use HFHI as a conduit of funds. The Organization also contributes a tithe to HFHI International. For the years ended June 30, 2022 and 2021, the Organization contributed \$8,452 and \$18,226 to HFHI, respectively and received grants of zero through HFHI.

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

Gains related to contingent receivables from silent mortgages have not been recorded in the accompanying financial statements. In the event that a home is sold prior to the pay-off of the related first mortgage receivable, a gain in the amount of the remaining silent mortgages would be recorded at that time. Silent mortgages are reduced yearly during the pay-off of the first mortgage or at maturity according to the policies of management. The estimated value of silent mortgages at June 30, 2022, is \$1,685,410 and \$1,260,002 for 2021.

**HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2022 AND 2021

NOTE 12 -- ENDOWMENT

The Board has established various endowments for the purpose of funding projects. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

June 30, 2022	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,696	\$ 1,696
Board-designated endowment funds	<u>60,515</u>	<u>-</u>	<u>60,515</u>
Total funds	<u>\$ 60,515</u>	<u>\$ 1,696</u>	<u>\$ 62,211</u>
June 30, 2021	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 617	\$ 617
Board-designated endowment funds	<u>69,041</u>	<u>-</u>	<u>69,041</u>
Total funds	<u>\$ 69,041</u>	<u>\$ 617</u>	<u>\$ 69,658</u>

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 12 -- ENDOWMENT (CONTINUED)

As of June 30, 2022 and 2021, net assets within the endowment fund that were required to be retained perpetually either by explicit donor stipulation or by SPMIFA amounted to \$1,696 and \$617, respectively.

Changes in Endowment Net Assets for the year ended June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>69,041</u>	\$ <u>617</u>	\$ <u>69,658</u>
Investment return:			
Investment income	2,583	-	2,583
Net appreciation (depreciation) (realized and unrealized)	(10,198)	-	(10,198)
Investment fees	<u>(911)</u>	<u>-</u>	<u>(911)</u>
Total investment return	<u>(8,526)</u>	<u>-</u>	<u>(8,526)</u>
Contributions	<u>-</u>	<u>1,079</u>	<u>1,079</u>
Endowment net assets, end of year	\$ <u><u>60,515</u></u>	\$ <u><u>1,696</u></u>	\$ <u><u>62,211</u></u>

Changes in Endowment Net Assets for the year ended June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>50,408</u>	\$ <u>-</u>	\$ <u>50,408</u>
Investment return:			
Investment income	1,556	-	1,556
Net appreciation (depreciation) (realized and unrealized)	17,809	-	17,809
Investment fees	<u>(732)</u>	<u>-</u>	<u>(732)</u>
Total investment return	<u>18,633</u>	<u>-</u>	<u>18,633</u>
Contributions	<u>-</u>	<u>617</u>	<u>617</u>
Endowment net assets, end of year	\$ <u><u>69,041</u></u>	\$ <u><u>617</u></u>	\$ <u><u>69,658</u></u>

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 12 -- ENDOWMENT (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. The Board of the Organization has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions and, as of June 30, 2022 and 2021, amounted to zero. These deficiencies result from unfavorable market fluctuations that occurred.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that the Organization must hold in perpetuity in the amount of \$1,696 and \$617 as of June 30, 2022 and 2021, respectively.

The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

Spending Policy

The Organization has a spending policy of 6% of the fair market value of the fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than five years immediately preceding the year in which the appropriation of expenditure is made. If the fund is in existence for less than five years, the fair market value of the fund must be calculated for the period the fund has been in existence. No distributions shall be made while the fund is below \$30,000.

NOTE 13 -- SIMPLE RETIREMENT PLAN

The Organization established a SIMPLE (Savings Incentive Match Plan for Employees) retirement plan. Under this plan the Organization is required to match up to 3% of each covered employees compensation. Employees are eligible to participate if they have provided at least 60 days of service. Total expense for the years ended June 30, 2022 and 2021 amounted to \$8,828 and \$6,018, respectively.

HABITAT FOR HUMANITY OF FLATHEAD VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 14 -- AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at June 30:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 164,407	\$ 786,446
Investments	86,515	263,291
Investments - endowment	62,211	69,658
Total financial assets	226,618	856,104
Less amounts not available for use within one year:		
Net assets with donor restrictions	5,617	4,538
Net assets designated by the Board	60,515	69,041
	66,132	73,579
Financial assets available to meet general expenditures over the next twelve months	\$ 160,486	\$ 782,525

As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization has other options to explore if, for some reason, available cash does not meet the needs of operations. Cash and investment accounts totaling \$66,132 contain funds that are required either by donors or the board to be used for specified purposes and the Organization has no intent to use these funds in any other way than those instructed. However, disbursements could be withdrawn to help manage unanticipated liquidity needs. The Organization could also either write additional grant requests, hold a major fundraising event or capital campaign, or sell a portion of its mortgage portfolio to cover unexpected expenditures. Management believes all of these to be viable strategies.

NOTE 15 -- LITIGATION

In January 2022, the Organization completed foreclosure proceedings on a home in which the residents failed and refused to vacate. Consequently, the Organization brought suit against the occupants who were unlawfully detaining the premises and subsequent to year end, the defendants were removed from the property. The Organization plans to seek damages, past due rent, fees, and reimbursement for other costs associated with the matter. The likelihood of an unfavorable outcome is concluded to be indeterminable by management.

NOTE 16 -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 2, 2023, the date on which the financial statements were available to be issued.