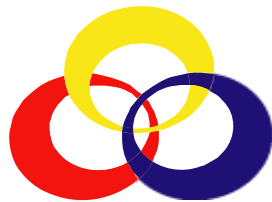


Audit Report
For the Year Ended
June 30, 2020

Mitchell Regional Habitat
for Humanity



Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks & Investments

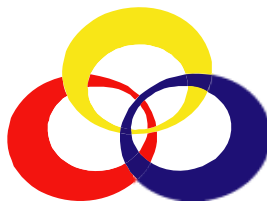
MITCHELL REGIONAL HABITAT FOR HUMANITY

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**MITCHELL REGIONAL HABITAT FOR HUMANITY
BOARD OF DIRECTORS
JUNE 30, 2020**

<u>Name</u>	<u>Title</u>
Bonny Hansen	President
Patrick Soukup	Vice-President
Eric Van Meter	Secretary
Kourtney Denne	Treasurer
Doug Fuerst	
Kyle Hohn	
Collen Hunt	
Debbie Asmus	
Dan Buchholtz	



Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Mitchell Regional Habitat for Humanity

We have audited the accompanying financial statements of the Mitchell Regional Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

404 3rd Avenue, PO Box 690, Brookings, SD 57006
605-692-2515 or 800-692-2515, fax 605-692-8151
Visit our website at www.kinner.co

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mitchell Regional Habitat for Humanity as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kinner & Company Ltd
Certified Public Accountants
Brookings, South Dakota

October 9, 2020

MITCHELL HABITAT FOR HUMANITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS	2020
Current Assets	
Cash and Cash Equivalents	\$ 76,956
Current Portion of Non-Interest Bearing Mortgage Loans Receivable	14,979
Mortgage payment Receivable from Servicing company	903
Inventory	
Land held for Development	6,000
Construction in Progress	574
Total Current Assets	99,411
Fixed Assets	
Equipment	7,218
Accumulated Depreciation	(3,839)
Total Fixed Assets	3,379
Noncurrent Assets	
Notes Receivable	
Non-Interest Bearing Mortgage Loans Receivable	522,836
Less: Allowance-2nd Mortgages	(153,873)
Less: Unamortized Discount	(141,475)
Less: Current Portion	(14,979)
Total Noncurrent Assets	212,510
Total Assets	\$ 315,299
LIABILITIES AND NET ASSETS	
Liabilities	
Current Liabilities	
Account Payable	\$ 1,634
Credit Card Payable	1,008
Accrued Payroll	2,531
Total Current Liabilities	5,173
Long-Term Liabilities	
Notes Payable	55,200
Total Long-Term Liabilities	55,200
Total Liabilities	60,373
Net Assets	
Without Donor Restrictions:	
Undesignated	242,244
With Donor Restrictions:	
	12,682
Total Net Assets	254,926
Total Liabilities and Net Assets	\$ 315,299

See the notes to the financial statements

MITCHELL HABITAT FOR HUMANITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Support, Program, and Other Revenue	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020</u>
Support			
Contributions	\$ 12,668	\$ 302	\$ 12,971
Grants	2,423	12,900	15,323
Gift in Kind	-	20,994	20,994
Net Assets Released from Restrictions	<u>21,514</u>	<u>(21,514)</u>	<u>-</u>
Total Support	<u>36,605</u>	<u>12,682</u>	<u>49,288</u>
Other Revenue			
Transfer to Homeowners	137,254		137,254
Less: Discounts on Transfers	(77,134)		(77,134)
Mortgage Loan Discount Amortization	5,970		5,970
Special Events - Fundraising	3,111		3,111
Other Income	486		486
Interest Earnings	<u>105</u>		<u>105</u>
Total Other Revenue	<u>69,793</u>	<u>-</u>	<u>69,793</u>
Total Support, Program, and Other Revenue	<u>106,398</u>	<u>12,682</u>	<u>119,080</u>
Expenditures			
Program Services	93,424		93,424
Fundraising	741		741
General and Administration	<u>36,162</u>		<u>36,162</u>
Total Expenditures	<u>130,327</u>	<u>-</u>	<u>130,327</u>
Change in net assets	<u>(23,929)</u>	<u>12,682</u>	<u>(11,246)</u>
Net Assets - Beginning of Year	<u>266,173</u>	<u>-</u>	<u>266,173</u>
Net Assets - End of Year	<u>\$ 242,244</u>	<u>\$ 12,682</u>	<u>\$ 254,926</u>

See the notes to the financial statements

MITCHELL HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administration</u>	<u>Total Expenses</u>
Bank Charges	\$ 280	\$ -	\$ 302	\$ 582
Closing Fees	2,864			2,864
Training	-		1,323	1,323
Insurance	-		2,454	2,454
Advertising	-	325	1,208	1,533
Cost of Homes	86,822			86,822
Construction	1,829		-	1,829
Depreciation	-		523	523
Family Selection and Support	365		-	365
Dues and Membership	-		1,634	1,634
Professional Fees	-		1,256	1,256
Office Supply	-		171	171
Technology and Software	-		175	175
Rent Expenses	345		1,975	2,320
Postage	-		320	320
Celebration	119		10	129
Debt write off	-	-	-	-
Tithe	-		1,634	1,634
Taxes	214		-	214
Licenses and Permit	-		89	89
Telephone and Internet	-		846	846
Utilities	488		-	488
Wages and Taxes	-		20,426	20,426
Miscellaneous and Other	-		3	3
Interest	-		-	-
Fundraising Expenditures	-	416	-	416
Travel & Meeting	-		943	943
Printing and Copying	98		871	969
Total	<u>\$ 93,424</u>	<u>\$ 741</u>	<u>\$ 36,162</u>	<u>\$ 130,327</u>

See the notes to the financial statements

MITCHELL HABITAT FOR HUMANITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020

	<u>2020</u>
Cash Flows From Operations	
Change in net assets	\$ (11,246)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	523
Change in assets and liabilities:	
(Increase) decrease in houses under construction	40,797
(Increase) decrease in land held for development	6,000
(Increase) decrease in other receivables	(903)
Increase (decrease) in accrued liabilities	(3,909)
Total adjustments	<u>42,507</u>
Net Cash Provided by Operations	<u>31,261</u>
 Cash Flows From Investing Activities	
New mortgages issued Net of Discount	(60,120)
Proceeds from mortgage payments-net of discounts	<u>9,067</u>
Cash Used by Investing Activities	<u>(51,053)</u>
 Cash Flows From Financing Activities	
Payments on notes payable	<u>(2,400)</u>
Cash Used by Financing Activities	<u>(2,400)</u>
Net (decrease) increase in cash	(22,192)
Cash at beginning of year	<u>99,148</u>
Cash at end of year	<u><u>\$ 76,956</u></u>

See the notes to the financial statements

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 – Summary of Significant Accounting Policies

A. Nature of Organization

The Mitchell Regional Habitat for Humanity was organized to work with God, people everywhere, from all walks of life, to develop communities with God's people in need by building and renovating houses so that there are decent houses in decent communities in which God's people can live and grow into all that God intended.

B. Basis 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 under the *FASB Accounting Standards Codification*.

C. Basis of Presentation

The Habitat implemented FASB ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance amends the requirements for financial statements and notes presented by a not-for-profit entity to: a) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes; b) present on the face of the statement of activities the amount of the change in either of the two classes of net assets rather than that of the currently required three classes; c) provide enhanced disclosures in the notes to the financial statements; d) report investment return net of external and direct internal investment expenses; e) provide enhanced disclosures of the amounts of expenses by both their natural classification and their functional classification; and f) utilize in the absence of explicit donor stipulations, the placed in service approach for reporting expirations of restrictions of gifts of cash or other assets to be used to acquire or construct a long-lived asset. Net assets of the Organization and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

D. Cash and Cash Equivalents

The Organization recognizes as cash, currency on hand and demand deposits with banks or other financial institutions. It also includes other accounts that have the general characteristics of demand deposits in that the customer may deposit or withdraw funds at any time without prior notice or penalty such as certificates of deposit which do not have penalties or terms with them which effectively restrict withdrawal of funds, money market accounts and repurchase agreements.

The Organization recognizes as cash equivalents short-term, highly liquid investments that (a) are readily convertible to known amounts of cash and (b) are so near to their maturity that they present an insignificant risk of changes in value because of changes in interest rates.

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

E. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible accounts receivable to operations when determined to be uncollectible. The balance of accounts receivable has been determined to be collectible. Therefore, no allowance has been recorded.

F. Non-Interest-Bearing Mortgage Loans Receivable

Habitat records and accounts for non-interest-bearing loans using the discounted cash flow method based on Habitat's current incremental borrowing rates for similar types of borrowing arrangements. These rates vary from 5% to 8% based upon the prevailing market rate at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. The discounted carrying amount of these loans approximates their fair value. The mortgages are secured by the real estate and due in monthly installments over the life of the mortgages, which range from 20 to 30 years. Two notes are issued to every homeowner, one being the amount the board has set (the first note), the other being the difference between the amount of the first note and the appraised value of the home. After a period of time designated in the mortgage, the second note is forgiven, annually, at a prorated amount designated in the mortgage such that before or at the maturity date of the first note, the second note would be forgiven in full. Habitat's policy is to work closely with homeowners to avoid defaulted mortgages.

Habitat has not recorded an allowance for uncollectible mortgages because it can reclaim houses through foreclosure. Though some of these mortgages may be foreclosed, Habitat believes the losses on foreclosure, if any, are immaterial in relation to these financial statements.

G. Houses under Construction

Houses under construction include costs associated with the construction and land used in construction of homes. Transfer to homeowner is recognized when the home is complete, and risk of ownership has transferred to the new homeowner.

H. Land Held for Development

Land costs are included in property development costs and are stated at the lower of cost or the fair value. Also, included in land costs are any costs incurred in development. When homes are sold, the corresponding costs are then added to the construction cost of the home.

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

I. Fixed Assets

All acquisitions and improvements of fixed assets more than \$500 are capitalized while all expenditures for repairs and maintenance and repairs that do not materially prolong the useful lives of assets are expensed. Items sold, retired, or otherwise disposed of are removed from the assets and accumulated depreciation accounts and any gains or losses are reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

J. Grant Revenues, Contributions, and Restrictions

The Organization receives some of its grant revenues from Federal, State, county, and city agencies. Revenue from grants is recognized upon performance of the granting activity and recognition of the related program expenditures. Amounts received from granting agencies in excess of expenditures incurred to date are recorded as deferred revenue.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

K. Donated Services

Numerous volunteers donate their time to the Organization's program services and fundraising activities during the year. These services are not reflected in the financial statements since these services do not require specialized skills.

L. Transfers to Homeowners

Transfer to homeowners are recorded at purchase price disclosed in the "Real estate Purchase Agreement". Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

M. Income Taxes

The Organization is a not-for-profit organization, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code. In addition, the Organization has been classified as an organization other than a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes has been reflected in the financial statements.

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

N. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates used in preparing these financial statements include those assumed in computing discounts on mortgages receivable and depreciation expenses (based on the estimated useful lives of the underlying assets). It is at least reasonably possible that the significant estimate will change within the next year.

O. Program Services

The Organization provides two program services. A homeownership program for the construction of affordable housing sold to eligible families in the Mitchell, SD area. The Home repairs program for the repair and painting of the exterior of homeowner occupied homes that qualify with low income, elderly, or disabled; this is available in the Mitchell, SD areas.

P. Subsequent Events

Subsequent events were evaluated through October 9, 2020, which is the date the financial statements were available to be issued. No significant, unusual, or infrequent events or transactions have occurred after the financial statement date but before the issuance of the financial statements.

Note 2 – Non-Interest-Bearing Mortgage Loans Receivable

Maturities of non-interest-bearing mortgage loans receivable as of June 30, 2020, are as follows:

2021	\$14,979
2022	14,979
2023	14,979
2024	14,979
2025	14,979
Thereafter	447,941
	523,836
Less: Allowance-2 nd Mortgages and Unamortized Discount	(153,873) (141,475)
	\$227,488

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 – Non-Interest-Bearing Mortgage Loans Receivable (Continued)

As of June 30, 2020, non-interest-bearing mortgage loans receivable are reported at of \$227,488, net of unamortized discounts and allowances.

The mortgages are attached to the residences that are sold to the families upon completion. Of the balance of \$522,836, \$55,200 was purchased by the South Dakota Housing Development Authority, and \$153,873 was a balance of a forgivable second mortgages. The payments on these mortgages are received by the Organization; therefore, the loans are included in the Mortgages Receivable and the corresponding amount due to the South Dakota Housing Development Authority is shown in Note 5, Notes Payable.

Note 3 – In-Kind Contributions

Contributions of donated, non-cash assets are recorded at their estimated value in the period received. For the years ending June 30, 2020, the estimated amount of in-kind contributions for donated Construction Materials amounted to \$20,994.

A substantial number of volunteers donate significant amounts of their time to Habitat for general construction and office labor. However, as these services do not require specialized skills or materiality enhance the value of nonfinancial assets, the value of such services is not recorded in the financial statements.

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 4 – Related Party Transactions

The Organization annually remits a portion of its contributions to Habitat International. Habitat International uses the funds to construct homes in economically depressed areas around the world. During the years ended June 30, 2020, the Organization contributed \$1,634, to Habitat International, reported as Tithes on the statement of functional expenses.

Note 5 – Notes Payable

Notes payable on June 30, 2020 consists of the following:

	<u>2020</u>
South Dakota Housing Development Authority Yearly payments due of \$2,400 with an interest rate of zero. Secured by a mortgage receivable. Matures February 2043.	\$55,200

Maturities of notes payable consist of the following:

<u>Years Ending June 30</u>	
2021	\$2,400
2022	2,400
2023	2,400
2024	2,400
2025	2,400
Thereafter	<u>43,200</u>
Total	<u>\$55,200</u>

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 6 – Concentration of Risk

The Organization holds cash balances at one financial institution in Omaha, Nebraska. Accounts held at this institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. As of June 30, 2020, no cash balances exceeded FDIC limits.

The Organization relies on contributions from local organizations, grants, businesses, and individuals for a major portion of their revenue. If these contributions were to decrease, it would severely limit the activities of the Organization.

Financial instruments that expose the Organization to concentrations of credit and market risk consist primarily of mortgages receivable due from homeowners. Although the Organization does not currently foresee a credit risk associated with the amounts due, repayment of the amounts is dependent upon the financial stability of the obligors and upon the overall local real estate market in Mitchell, South Dakota.

Note 8 – Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year, the Organization managed its risks as follows:

Liability Insurance – The Organization purchases liability insurance for risks related to torts; theft and damage to vehicles and property.

Workmen's Compensation – The Organization purchases liability insurance for workmen's compensation from a commercial carrier.

Note 9 – Methods used for Allocation of Expenses Among Program and Supporting Services

Program services, management and general, and fundraising expenses have been recorded in the statements of activities and on the statements of functional expenses on a direct costing. The Organization's management allocated general and administrative expenses based upon management's best estimates.

MITCHELL REGIONAL HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 10 – Liquidity and Availability of Financial Assets

The Organization’s working capital and cash flows have variations during the year attributable to the timing of houses being built and funding received. The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of lender-imposed restrictions or internal designations. Amounts not available include assets set aside for long-term investing in operating reserves that could be drawn upon if the governing board approves that action.

	<u>2020</u>
Cash and Cash Equivalents	\$76,956
Account Receivable - FBNO	903
Current Portion – Loan Receivables	<u>14,979</u>
Total financial assets	95,838
Financial assets available to meet cash needs for general expenditures within one year	<u>\$95,838</u>