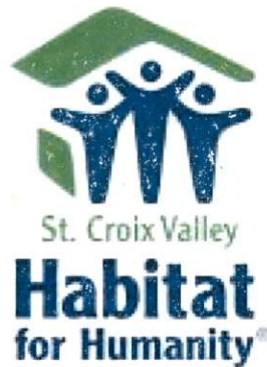




JOHNSON BLOCK
CPAs



ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2021 AND 2020

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.

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JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. Croix Valley Habitat for Humanity, Inc.

We have audited the accompanying financial statements of St. Croix Valley Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 risks 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Croix Valley Habitat for Humanity, Inc. as of June 30, 2021 and 2020, 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.

Johnson Block & Company, Inc.

Johnson Block & Company, Inc.
November 15, 2021

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	JUNE 30,	
	2021	2020
<u>ASSETS</u>		
Cash and cash equivalents	\$ 418,441	\$ 269,081
Assets limited to use - escrow accounts	74,103	81,214
Accounts receivable	2,164	9,398
A Brush With Kindness receivable	5,593	5,588
Promises to give, net	500	5,500
Prepaid expenses	3,641	-
Inventory	-	7,847
Land held for future use	120,104	120,104
Property and equipment, net	2,573	5,002
Homes under construction	64,189	11,694
Mortgage receivables, net of of unamortized discount	314,835	409,298
TOTAL ASSETS	\$ 1,006,143	\$ 924,726
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 29,924	\$ 9,354
Escrow accounts payable	74,803	79,777
Accrued expenses	10,594	5,026
Paycheck Protection Program loan	-	29,457
Notes payable, net of discounts	145,827	350,507
Mortgage servicing liability	31,635	38,779
TOTAL LIABILITIES	292,783	512,900
NET ASSETS		
Without donor restrictions	597,978	291,811
With donor restrictions	115,382	120,015
TOTAL NET ASSETS	713,360	411,826
TOTAL LIABILITIES AND NET ASSETS	\$ 1,006,143	\$ 924,726

The accompanying notes are an integral part of these financial statements.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	YEAR ENDED JUNE 30, 2021			YEAR ENDED JUNE 30, 2020		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUES AND SUPPORT						
Contributions	\$ 299,504	\$ 66,990	\$ 366,494	\$ 144,548	\$ -	\$ 144,548
United Way	-	500	500	-	500	500
In-kind contributions	8,057	-	8,057	2,150	-	2,150
ReStore sales	-	-	-	83,670	-	83,670
Other income	19,125	-	19,125	22,278	-	22,278
Net assets released from restrictions	<u>72,123</u>	<u>(72,123)</u>	<u>-</u>	<u>9,674</u>	<u>(9,674)</u>	<u>-</u>
TOTAL OPERATING REVENUES AND SUPPORT	<u>398,809</u>	<u>(4,633)</u>	<u>394,176</u>	<u>262,320</u>	<u>(9,174)</u>	<u>253,146</u>
OPERATING EXPENSES						
Program services	128,817	-	128,817	50,170	-	50,170
ReStore expenses	-	-	-	209,034	-	209,034
Management and general	175,552	-	175,552	107,083	-	107,083
Fundraising	<u>27,557</u>	<u>-</u>	<u>27,557</u>	<u>11,565</u>	<u>-</u>	<u>11,565</u>
TOTAL OPERATING EXPENSES	<u>331,926</u>	<u>-</u>	<u>331,926</u>	<u>377,852</u>	<u>-</u>	<u>377,852</u>
OPERATING CHANGE IN NET ASSETS	<u>66,883</u>	<u>(4,633)</u>	<u>62,250</u>	<u>(115,532)</u>	<u>(9,174)</u>	<u>(124,706)</u>
NON-OPERATING ACTIVITIES						
Interest income	107	-	107	535	-	535
Amortization of discount on mortgages	26,337	-	26,337	110,522	-	110,522
Gain (loss) on disposal of fixed assets and inventory	2,311	-	2,311	(13,146)	-	(13,146)
Gain (loss) on extinguishment of debt	78,063	-	78,063	15,000	-	15,000
Gain (loss) on mortgage services	<u>132,466</u>	<u>-</u>	<u>132,466</u>	<u>(4,290)</u>	<u>-</u>	<u>(4,290)</u>
NON-OPERATING CHANGE IN NET ASSETS	<u>239,284</u>	<u>-</u>	<u>239,284</u>	<u>108,621</u>	<u>-</u>	<u>108,621</u>
CHANGE IN NET ASSETS	306,167	(4,633)	301,534	(6,911)	(9,174)	(16,085)
NET ASSETS AT BEGINNING OF YEAR	<u>291,811</u>	<u>120,015</u>	<u>411,826</u>	<u>298,722</u>	<u>129,189</u>	<u>427,911</u>
NET ASSETS AT END OF YEAR	<u>\$ 597,978</u>	<u>\$ 115,382</u>	<u>\$ 713,360</u>	<u>\$ 291,811</u>	<u>\$ 120,015</u>	<u>\$ 411,826</u>

The accompanying notes are an integral part of these financial statements.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	YEAR ENDED JUNE 30, 2021			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
EXPENSES				
Cost of goods sold	\$ 1,951	\$ -	\$ -	\$ 1,951
Construction expenses	27,428	-	-	27,428
Salaries	46,115	69,173	16,470	131,758
Payroll taxes	3,883	5,824	1,387	11,094
Employee benefits	4,263	6,395	1,523	12,181
Professional fees and contract services	1,102	37,855	-	38,957
Supplies	5,505	11,007	5,506	22,018
Printing and publications	118	288	774	1,180
Postage, shipping, and delivery	329	371	300	1,000
Telephone	472	8,031	945	9,448
Occupancy	7,231	18,092	-	25,323
Taxes and licenses	138	1,613	-	1,751
Insurance	2,255	2,254	-	4,509
Travel	2,033	1,425	-	3,458
Membership dues and subscriptions	10,917	1,463	652	13,032
Repairs and maintenance	400	5,314	-	5,714
Advertising	784	71	-	855
Depreciation	2,372	57	-	2,429
Miscellaneous	2,723	4,085	-	6,808
Interest expense	8,798	2,234	-	11,032
TOTAL FUNCTIONAL EXPENSES	\$ 128,817	\$ 175,552	\$ 27,557	\$ 331,926

The accompanying notes are an integral part of these financial statements.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

EXPENSES	YEAR ENDED JUNE 30, 2020				
	PROGRAM SERVICES	RESTORE	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of goods sold	\$ -	\$ 10,098	\$ -	\$ -	\$ 10,098
Construction expenses	1,835	-	-	-	1,835
Salaries	10,061	100,605	48,625	8,384	167,675
Payroll taxes	818	8,175	3,951	681	13,625
Employee benefits	1,290	12,897	6,233	1,075	21,495
Professional fees and contract services	512	14	17,602	-	18,128
Supplies	2,088	450	3,524	21	6,083
Printing and publications	-	-	284	880	1,164
Postage, shipping, and delivery	15	5	135	426	581
Telephone	2,377	727	5,949	-	9,053
Occupancy	450	25,388	1,964	-	27,802
Taxes and licenses	-	22,836	-	-	22,836
Insurance	9,475	1,771	6,641	-	17,887
Travel	2,601	769	329	-	3,699
Membership dues and subscriptions	540	74	8,457	98	9,169
Repairs and maintenance	1,745	571	157	-	2,473
Advertising	723	241	17	-	981
Depreciation	1,194	12,097	1,792	-	15,083
Miscellaneous	369	-	92	-	461
Interest expense	14,077	12,316	1,331	-	27,724
TOTAL FUNCTIONAL EXPENSES	<u>\$ 50,170</u>	<u>\$ 209,034</u>	<u>\$ 107,083</u>	<u>\$ 11,565</u>	<u>\$ 377,852</u>

The accompanying notes are an integral part of these financial statements.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	JUNE 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 301,534	\$ (16,085)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,429	15,083
Notes payable discount amortization	6,142	6,674
Mortgage loan discount amortization	(26,337)	(110,522)
Mortgage servicing liability amortization	(7,144)	(1,931)
Loss (gain) on disposal of fixed assets and inventory	(2,311)	13,146
Loss (gain) on extinguishment of debt	(78,063)	(15,000)
Accrued interest forgiven	357	-
Loss (gain) on mortgage services	(132,466)	4,290
Changes in operating assets and liabilities:		
Assets limited to use - escrow funds	2,137	33
Accounts receivable	7,229	1,290
Promises to give	5,000	(2,500)
Prepaid expenses	(3,641)	4,737
Inventory - building materials and supplies	10,158	-
Accounts payable	20,570	(17,454)
Accrued expenses	5,568	(2,001)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	111,162	(120,240)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from home and lot sales	218,525	251,868
Purchase of materials for homes under construction	(60,370)	(74,105)
Proceeds on sale of fixed assets	-	5,500
Proceeds on mortgage sales	-	95,182
Mortgage payments received	42,616	51,878
Mortgages traded back	-	(4,774)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	200,771	325,549
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	48,249	29,457
Payments on long-term debt	(210,822)	(55,157)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(162,573)	(25,700)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	149,360	179,609
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	269,081	89,472
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 418,441	\$ 269,081
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 11,032	\$ 27,724
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Extinguishment of land contract payable	\$ -	\$ (1,042,004)
Return of building and land upon extinguishment of land contract	\$ -	\$ 1,066,135

The accompanying notes are an integral part of these financial statements.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 – Nature of the Organization and Summary of Significant Accounting Policies

Nature of Organization – St. Croix Valley Habitat for Humanity, Inc. (“Habitat”), a non-profit organization, 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, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Basis of Accounting – The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation – Habitat’s financial statements are prepared in accordance with professional standards. Under generally accepted accounting principles (GAAP), Habitat is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restriction consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of Habitat and include those expendable resources which have been designated for special use by Habitat’s Board of Directors.

Net assets with donor restrictions consist of net assets that are subject to either donor-imposed time restrictions or donor-imposed purpose restrictions. These restrictions limit Habitat’s choices of when to use these resources.

Income Tax Status – Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

In accordance with professional standards, Habitat follows the statutory requirements of their income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to Habitat’s tax-exempt status would not have a material effect on the accompanying financial statements.

Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.

Cash and Cash Equivalents – All liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Concentrations of Credit Risk – The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) currently insure up to \$250,000 of substantially all depository accounts held at each financial institution. Occasionally, the cash balances of Habitat may exceed that amount. At June 30, 2021 and 2020, Habitat had uninsured balances of \$190,350 and \$866, respectively. Habitat has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 1 – Nature of the Organization and Summary of Significant Accounting Policies – Continued

Assets Limited to Use - Escrow Accounts – Assets limited to use consist of cash in escrow fund accounts held on behalf of clients. Habitat requires all homeowners to deposit into escrow cash to be applied to the current year’s real estate taxes and homeowner’s insurance. The resulting cash accounts are not considered cash held by Habitat and are offset by escrow accounts payable in the statements of financial position.

Accounts Receivable – Accounts receivable are recorded at net realizable value. Habitat accounts for doubtful accounts receivable by the reserve method, based on management’s best estimate and past history. All accounts receivable is due on demand. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management’s past history. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2021, and 2020, no allowance for doubtful accounts was considered necessary for accounts receivable.

Promises to Give – Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence of any donor restrictions. If donor restrictions are satisfied in the year the contributions are received, the contribution is recorded as support without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (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 statements of activities as net assets released from restrictions.

Home Construction Costs – Cost incurred in conjunction with home construction are capitalized as construction in process. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post settlement costs are expensed as incurred.

	2021	2020
Homes under construction as of July 1	1	2
Home construction started during the year	1	1
Homes transferred during the year	(1)	(2)
Homes under construction as of June 30	1	1

Inventories – Inventory consists of both supplies to be used during home construction and items for resale at Habitat’s ReStore business.

Donated inventory, materials, and supplies are recorded at fair market value at the date when they are made available for sale. Prior to being offered for sale and included in inventory, donated items are not valued due to uncertainties concerning their value. Purchased merchandise inventory is valued at lower of cost or net realizable value.

Land Held for Future Use – Land held for future use consists of vacant lots to be used for future homes or to be sold. Land is valued at cost. The value of land held for future use is transferred to cost of homes sold at the time of sale to homeowners.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 1 – Nature of the Organization and Summary of Significant Accounting Policies – Continued

Property and Equipment – Habitat capitalizes all expenditures in excess of \$2,500 for property and equipment with an estimated useful life greater than one year. Purchases of property and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Habitat reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	7-39 years
Equipment and furnishings	5-7 years
Vehicles	5-7 years

Depreciation expense for the years ended June 30, 2021 and 2020, was \$2,429 and \$15,083, respectively.

Mortgages Receivable – Mortgage notes receivable entered into at rates substantially below market rates are discounted to net present value. The discounts are charged directly to operations at the inception of the mortgage and amortized over the life of the contract. Discount amortization is reported as amortization of discount on mortgages on the statements of activities in the period amortized.

Valuation of Servicing Liability – Habitat recognized a liability for servicing costs that result from the sale of loans it originates (asset transfers) at fair value in accordance with ASC 860. Servicing liabilities from asset transfers are initially capitalized and recorded at fair value. Habitat determines the fair value of servicing rights using the present value of estimated future net servicing costs. Servicing liabilities are subsequently recorded using the amortization method which requires servicing liabilities to be amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The carrying value of servicing liability is included in the statements of financial position.

Servicing liabilities are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. The fair values of servicing liabilities are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Impairment is determined by assessing risk characteristics, such as interest rate and loan types. Habitat did not recognize any impairment on servicing liabilities for the years ended June 30, 2021 and 2020.

Allowance for Credit Losses – Habitat’s allowance for credit losses is the amount considered adequate to absorb probable losses based on management’s evaluations of the size and current risk characteristics of the mortgage loan portfolios. Such evaluations consider historical and current portfolio performance information and experience with homeowners. Specific allowances for credit losses are established for large impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that Habitat will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the estimated fair value of the underlying collateral.

At June 30, 2021 and 2020, Habitat individually evaluated mortgage notes for impairment. Management believes all mortgages receivable are realizable through either collection or foreclosure proceeds if not collected.

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 1 – Nature of the Organization and Summary of Significant Accounting Policies – Continued

In-Kind Contributions – In-kind contributions consist of donated land, homes, materials, and specialized labor. Donated land is valued using independent appraisals, or if unavailable, comparative market analysis or tax appraisal values. Donated materials and specialized labor are valued at market value on the date of donation.

Home Sales – Nearly all sales to homeowners have been financed by Habitat and are recorded when the title is transferred. The amount of the first mortgage for homes Habitat developed is classified as operating revenues and the related discount is recorded at the same time as nonoperating activity. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Utilizing the effective interest method, this discount will be recognized as income over the term of the mortgage. Interest-bearing mortgages are evaluated at inception for potential discount. No discount has been recognized on interest-bearing mortgages deemed to be at a market rate.

Presentation of Sales Taxes – Habitat collects sales taxes from nonexempt customers and remits these taxes to various state and local governments. Habitat’s account policy is to exclude the tax collected and remitted to the state and local governments from both revenues and expenses.

Advertising – Habitat expenses advertising costs in the period the expense is incurred. Advertising expense during the years ended June 30, 2021 and 2020, was \$855 and \$981, respectively.

Functional Allocation of Expenses – Salaries and related expenses are allocated based on management’s estimate of how individual employees spend their time. Expenses, other than salaries and related expenses which are not directly identifiable by program or support service, are allocated based on the historical usage rates.

Estimates – Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Reclassifications – Certain amounts have been reclassified in the prior year financial statements to conform with the current year presentation. The reclassifications have no effect on the total change in net assets for the prior year.

Subsequent Events – The Organization has evaluated subsequent events through November 15, 2021, the date which the financial statements were available to be issued.

NOTE 2 – Inventory

Inventory consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Supplies	<u>\$ -</u>	<u>\$ 7,847</u>

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 3 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 13,013	\$ 13,013
Furniture and fixtures	14,298	14,298
Vehicles	<u>22,370</u>	<u>22,370</u>
Total	49,681	49,681
Less accumulated depreciation	<u>(47,108)</u>	<u>(44,679)</u>
Net property and equipment	<u>\$ 2,573</u>	<u>\$ 5,002</u>

NOTE 4 – Mortgages Receivable

A Habitat-developed home is considered sold when a formal closing transaction has been finalized. Homes are priced at fair market value based on an appraisal of the property. Contract periods span 20 to 30 years and monthly payments are no greater than 30% of the family’s income at the time of the sale. At June 30, 2021 and 2020, Habitat had 12 and 14 mortgages outstanding, respectively.

When the first mortgage on each home is less than the market value, Habitat also provides a second mortgage for the difference between the first mortgage and market value. The second mortgage, which is forgiven at the end of the first mortgage term, is assumed to have no economic value and, accordingly, is not recognized in Habitat’s financial statements unless such mortgage becomes collectible in accordance with the terms of the mortgage agreement.

The mortgage loans receivable are noninterest-bearing mortgages. At June 30, 2021 and 2020, the composition of mortgages receivable held are as follows:

	<u>2021</u>	<u>2020</u>
Mortgages receivable held	\$ 824,502	\$ 945,478
Less unamortized discount	<u>(509,667)</u>	<u>(536,180)</u>
TOTAL	<u>\$ 314,835</u>	<u>\$ 409,298</u>

The held mortgages receivable have been discounted in order to reflect their economic value. The interest rates used to determine the discount range from 7.48% to 8.55% based on prevailing market rates in the year the mortgage was originated. These original discounts and related amortization are reflected as nonoperating activity in the statements of activities.

There is no allowance for credit losses at June 30, 2021 and 2020.

The following table shows an aging analysis of the mortgages receivables by time past due for the year ended June 30, 2021:

	<u>Current</u>	<u>30-89 Days past due</u>	<u>90 Days or more past due</u>	<u>Total</u>
Mortgages Receivable	<u>\$ 266,554</u>	<u>\$ -</u>	<u>\$ 48,281</u>	<u>\$ 314,835</u>

ST. CROIX VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 4 – Mortgages Receivable – Continued

The following table shows an aging analysis of the mortgages receivables by time past due for the year ended June 30, 2020:

	Current	30-89 Days past due	90 Days or more past due	Total
Mortgages Receivable	\$ 226,083	\$ 112,894	\$ 70,321	\$ 409,298

Habitat has sold mortgages it originated to First National Bank of River Falls. These mortgages are not included in mortgages receivable above. However, the agreement requires Habitat to replace a nonperforming loan, which is defined as a loan delinquent by 90 days, with another mortgage from its portfolio.

NOTE 5 – Capitalized Lease Assets

Capitalized lease assets consist of the following at June 30:

	2021	2020
Equipment	\$ 7,660	\$ 7,660
Less accumulated depreciation	(5,362)	(3,830)
TOTAL	\$ 2,298	\$ 3,830

Depreciation expense on capitalized lease assets for the years ended, June 30, 2021 and 2020, was \$1,532 and \$1,532, respectively.

NOTE 6 – Mortgage Servicing Liability

Habitat has mortgage servicing liabilities on mortgages that it originated and sold with servicing retained. The value of these rights is reported on the statements of financial position. The servicing liability for June 30, 2021 and 2020, was amortized using an interest rate of 1.58%.

Activity for servicing liability under the amortization method is as follows for the years ended June 30:

	2021	2020
Balance at beginning of year	\$ 38,779	\$ 40,710
Additions	-	-
Impairments	-	-
Amortization	7,144	1,931
Balance at end of year	\$ 31,635	\$ 38,779

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NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 7 – Long-Term Notes Payable

Long-term notes payable consist of the following at June 30:

	2021	2020
0% note payable to the City of River Falls in monthly installments of \$1,000 through January 2021; \$2,011 from February 2021 through April 2027, with final payment due May 2027. If the above terms are not met, interest of 4% will be assessed from the origination date of May 2, 2012. Note is secured by a first mortgage on the Eco Village project.	\$ 142,817	\$ 159,872
Note payable to Steiner Plumbing and Electric, Inc. as a conversion of accounts payable for Eco Village expenses incurred. Payable in monthly installments of \$2,500, including 3% interest. Balance paid in full February 2021. Secured by a mortgage on Eco Village properties.	-	180,197
Capital lease for copier with monthly payments of \$138, including interest at imputed rate of 3%. Final payment due August 2022. Secured by copier equipment.	1,892	3,462
Note payable to Propel Nonprofits with monthly principal payments of \$1,000 plus interest at 6.5%. Note is due April 2022.	11,000	23,000
0% unsecured note payable to Habitat for Humanity International with no repayment schedule.	60,000	60,000
	215,709	426,531
Less discount on note payable	(69,882)	(76,024)
TOTAL	\$ 145,827	\$ 350,507

Future minimum payments on long-term debt are as follows at June 30:

2022		\$ 96,617
2023		24,538
2024		24,132
2025		24,132
2026		24,132
Thereafter		22,158
TOTAL		\$ 215,709

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NOTES TO THE FINANCIAL STATEMENTS – Continued
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NOTE 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2021	2020
Pledges - time restrictions	\$ 500	\$ 500
Discount on note payable - time restriction	69,882	76,024
New home construction - use restriction	45,000	43,491
TOTAL	\$ 115,382	\$ 120,015

NOTE 9 – In-Kind Contributions

In-kind contributions consist of the following at June 30:

	2021	2020
Supplies and materials	\$ 857	\$ -
Office rent	7,200	-
Labor and services	-	2,150
TOTAL	\$ 8,057	\$ 2,150

NOTE 10 – Transactions with Habitat International

Habitat is committed to remit 10% of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. In each of the years ended June 30, 2021 and 2020, Habitat contributed \$7,500 to Habitat International. These amounts are included in the statements of activities.

NOTE 11 – Retirement Plan

Habitat sponsors a SIMPLE plan for eligible full-time employees. Under the plan, Habitat contributes an amount on behalf of each eligible participant equal to 100% of their contribution up to 3% of the employee's compensation. Contributions to the plan by Habitat for the years ended June 30, 2021 and 2020, were \$1,281 and \$1,432, respectively.

NOTE 12 – Paycheck Protection Program

In April 2020, Habitat entered into a Paycheck Protection Program loan agreement with a local financial institution in the amount of \$29,457, the proceeds of which were to be used for payroll costs, rent obligations, and utility payments. The loan was scheduled to mature April 2022 and monthly payments, including 1% interest, were to begin in November 2020. In December 2020, this loan was forgiven in full, including any accrued interest.

In February 2021, Habitat entered into a second Paycheck Protection Program loan agreement with a local financial institution in the amount of \$48,249, the proceeds of which were to be used for payroll costs, rent obligations, and mortgage interest. This loan was scheduled to mature February 2026. In June 2021, this loan was forgiven in full, including accrued interest.

Accordingly, \$78,063, including \$357 of accrued interest, has been recognized as a gain on extinguishment of debt in the statements of activities for the year ended June 30, 2021.

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NOTES TO THE FINANCIAL STATEMENTS – Continued
JUNE 30, 2021 AND 2020

NOTE 13 – Lease

In October 2020, Habitat entered into a three-year lease for office space at a cost of \$1,200 per month.

NOTE 14 – Commitments and Contingencies

The spread of the COVID-19 virus has created economic uncertainty internationally. Additional future impacts and actions as the pandemic progresses have not been determined, and Habitat continues to evaluate issues as they arise.

NOTE 15 – Liquidity and Availability of Financial Assets

Habitat monitors its liquidity so that it is able to meet its operating needs. Financial assets are considered unavailable when not liquid or not convertible into cash within one year, are assets held for others, assets restricted by donors for specific uses, perpetual endowments and accumulated earnings net of appropriations within one year, or because the board of directors has designated funds for specific reserves or long-term investments such as board-designated quasi-endowments.

The following table reflects Habitat’s financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year.

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 418,441	\$ 269,081
Assets limited to use - escrow accounts	74,103	81,214
Accounts receivable	2,164	9,398
A Brush With Kindness receivable	5,593	5,588
Promises to give, net	500	5,500
Mortgage receivables, net of of unamortized discount	314,835	409,298
Total financial assets	815,636	780,079
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions:		
Assets limited to use - escrow accounts	(74,103)	(81,214)
A Brush With Kindness receivable	(5,593)	(5,588)
New home construction	(45,000)	(43,491)
Time restrictions:		
Promises to give, net	(500)	(5,500)
Mortgage receivables, net of of unamortized discount	(314,835)	(409,298)
Financial assets available for general expenditure within one year	\$ 375,605	\$ 234,988

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NOTE 16 – Habitat for Humanity ReStore

In October 2021, Habitat re-opened the ReStore in a hybrid format, using the available space in the St. Croix Valley Habitat for Humanity office building at 749 Ryan Drive in Hudson, Wisconsin as shopping/retail space, with online sales opportunities via the Habitat website. The ReStore is a thrift-store model, which accepts gently used building materials, furniture, and lawn/garden items as in-kind donations from the community. These items are then re-sold at discounted rates to help support operating expenses for both the store and affiliate as well as helping support the mission to help people with safe, affordable housing. The ReStore is owned by the Habitat affiliate and purchases are tracked through the retail register and Square purchasing portal. This ReStore was approved by both the board of directors and Habitat for Humanity International as a one-year test and will be re-evaluated in June 2022.

NOTE 17 – Effect of New Accounting Standards on Current-Period Financial Statements

The Financial Accounting Standards Board (FASB) has approved the following:

- Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which requires recognition of rights and obligations from lease contracts longer than one year as assets and liabilities on the statement of net position. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021.
- Accounting Standards Update (ASU) No. 2020-07, *Not-For-Profit Entities* (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets, which requires presentation and disclosure of contributed nonfinancial assets received. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021.

Habitat is evaluating the effect that these updates will have on its financial statements and related disclosures. When they become effective, application of these standards may restate portions of these financial statements.