

TWO RIVERS HABITAT FOR HUMANITY
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2021 AND 2020

TWO RIVERS HABITAT FOR HUMANITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Two Rivers Habitat for Humanity
Rochester, Minnesota

We have audited the accompanying financial statements of Two Rivers Habitat for Humanity (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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 Organization'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 organization'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 Two Rivers Habitat for Humanity as of June 30, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature of Stephen Ash, CPA, LLP.

Rochester, Minnesota
December 9, 2021

TWO RIVERS HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	2021	2020
<u>ASSETS</u>		
Cash	\$ 269,349	\$ 262,792
Investments	496	-
Accounts receivable	300	-
Prepaid expenses	21,659	12,422
Unconditional promises to give	11,395	11,395
Home repair projects receivable, net of allowance of \$5,879 and \$0-	28,824	40,865
Mortgages receivable, net	2,064,713	2,076,642
Remainder interest in gift annuity	34,317	25,458
Construction in process	494,499	500,588
Property and equipment, net	944,982	978,329
TOTAL ASSETS	\$ 3,870,534	\$ 3,908,491
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 55,243	\$ 41,876
Accrued liabilities	52,335	46,578
Refundable advance	118,307	114,900
Long-term debt, net	1,618,832	1,782,806
TOTAL LIABILITIES	1,844,717	1,986,160
NET ASSETS		
Without donor restrictions	1,979,940	1,885,478
With donor restrictions	45,877	36,853
TOTAL NET ASSETS	2,025,817	1,922,331
TOTAL LIABILITIES AND NET ASSETS	\$ 3,870,534	\$ 3,908,491

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE AND OTHER SUPPORT			
Contributions	\$ 384,202	\$ 11,560	\$ 395,762
In-kind contributions	18,355	-	18,355
PPP grant income	114,900	-	114,900
Fundraising events	18,932	-	18,932
ReStore income	532,201	-	532,201
Transfers to homeowners	351,100	-	351,100
Mortgage discount amortization	164,717	-	164,717
Home repair income	3,770	-	3,770
Interest income	308	-	308
Gain in value of gift annuity	-	8,859	8,859
Other income	24,171	-	24,171
Net assets released from restrictions	<u>11,395</u>	<u>(11,395)</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>1,624,051</u>	<u>9,024</u>	<u>1,633,075</u>
EXPENSES			
Program	1,307,428	-	1,307,428
Management and general	112,477	-	112,477
Fundraising	<u>109,684</u>	<u>-</u>	<u>109,684</u>
TOTAL EXPENSES	<u>1,529,589</u>	<u>-</u>	<u>1,529,589</u>
CHANGE IN NET ASSETS	94,462	9,024	103,486
NET ASSETS AT BEGINNING OF YEAR	<u>1,885,478</u>	<u>36,853</u>	<u>1,922,331</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,979,940</u></u>	<u><u>\$ 45,877</u></u>	<u><u>\$ 2,025,817</u></u>

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE AND OTHER SUPPORT			
Contributions	\$ 184,261	\$ 11,395	\$ 195,656
In-kind contributions	7,192	-	7,192
Fundraising events	18,679	-	18,679
ReStore income	351,843	-	351,843
Transfers to homeowners	216,893	-	216,893
Mortgage discount amortization	169,071	-	169,071
Home repair income	21,701	-	21,701
Interest income	153	-	153
Loss in value of gift annuity	-	(3,654)	(3,654)
Other income	52,440	-	52,440
Net assets released from restrictions	<u>8,650</u>	<u>(8,650)</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>1,030,883</u>	<u>(909)</u>	<u>1,029,974</u>
EXPENSES			
Program	1,012,061	-	1,012,061
Management and general	113,531	-	113,531
Fundraising	<u>85,401</u>	<u>-</u>	<u>85,401</u>
TOTAL EXPENSES	<u>1,210,993</u>	<u>-</u>	<u>1,210,993</u>
 CHANGE IN NET ASSETS	 (180,110)	 (909)	 (181,019)
 NET ASSETS AT BEGINNING OF YEAR	 <u>2,065,588</u>	 <u>37,762</u>	 <u>2,103,350</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 1,885,478</u>	 <u>\$ 36,853</u>	 <u>\$ 1,922,331</u>

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	PROGRAM ACTIVITIES			SUPPORT ACTIVITIES		
	HOME REPAIR & CONSTRUCTION	RESTORE	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 259,040	\$ 202,010	\$ 461,050	\$ 53,413	\$ 56,601	\$ 571,064
Payroll taxes	15,529	16,308	31,837	4,174	4,759	40,770
Employee benefits	20,567	11,382	31,949	5,728	2,778	40,455
Construction materials and supplies	317,211	3,203	320,414	-	-	320,414
Discounts on mortgages receivable	197,121	-	197,121	-	-	197,121
Interest	28,959	34,373	63,332	177	-	63,509
Rent	3,048	-	3,048	20,819	810	24,677
Postage and delivery	77	1,103	1,180	177	26,788	28,145
Special events	-	-	-	-	182	182
Supplies	5,658	13,250	18,908	574	1,031	20,513
Telephone	1,660	6,724	8,384	3,579	770	12,733
Bank and loan processing fees	10,734	11,867	22,601	218	371	23,190
Insurance	21,903	16,599	38,502	2,355	566	41,423
Accounting and auditing fees	-	-	-	9,977	25	10,002
Advertising	320	8,012	8,332	-	363	8,695
Legal fees, licenses, and permits	496	200	696	200	200	1,096
Travel and reimbursements	6,043	10,194	16,237	75	1,168	17,480
Dues	2,568	3,719	6,287	4,524	5,072	15,883
Training	30	-	30	-	-	30
Volunteers	456	976	1,432	-	193	1,625
Tithe	-	-	-	-	7,687	7,687
Utilities	-	29,936	29,936	98	-	30,034
Repairs and maintenance	1,442	11,499	12,941	385	320	13,646
Bad debt expense	-	-	-	5,879	-	5,879
Depreciation	8,022	25,189	33,211	125	-	33,336
TOTAL EXPENSES	\$ 900,884	\$ 406,544	\$ 1,307,428	\$ 112,477	\$ 109,684	\$ 1,529,589

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	PROGRAM ACTIVITIES			SUPPORT ACTIVITIES		
	HOME REPAIR & CONSTRUCTION	RESTORE	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and wages	\$ 247,477	\$ 197,985	\$ 445,462	\$ 23,925	\$ 45,307	\$ 514,694
Payroll taxes	18,631	15,447	34,078	1,751	3,429	39,258
Employee benefits	18,415	14,742	33,157	2,043	3,905	39,105
Construction materials and supplies	239,317	1,309	240,626	27,610	-	268,236
Discounts on mortgages receivable	(31,330)	-	(31,330)	-	-	(31,330)
Interest	40,932	16,947	57,879	2,113	2,110	62,102
Rent	18,740	-	18,740	4,016	4,016	26,772
Postage and delivery	-	1,512	1,512	257	1,589	3,358
Special events	-	-	-	-	7,922	7,922
Supplies	4,867	15,481	20,348	3,698	-	24,046
Telephone	9,849	-	9,849	2,111	2,111	14,071
Bank and loan processing fees	17,114	5,284	22,398	3,731	639	26,768
Insurance	17,250	22,133	39,383	7,355	-	46,738
Accounting and auditing fees	-	3,562	3,562	13,515	-	17,077
Advertising	-	12,029	12,029	683	3,162	15,874
Legal fees, licenses and permits	1,585	405	1,990	405	-	2,395
Travel and reimbursements	4,382	10,035	14,417	7,226	1,951	23,594
Dues	599	6,008	6,607	10,218	5,264	22,089
Training	412	2,467	2,879	1,148	12	4,039
Volunteers	1,007	2,503	3,510	-	-	3,510
Tithe	-	-	-	-	3,984	3,984
Utilities	-	32,865	32,865	185	-	33,050
Repairs and maintenance	264	7,294	7,558	1,638	-	9,196
Miscellaneous	-	-	-	(97)	-	(97)
Depreciation	8,856	25,686	34,542	-	-	34,542
TOTAL EXPENSES	\$ 618,367	\$ 393,694	\$ 1,012,061	\$ 113,531	\$ 85,401	\$ 1,210,993

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 395,762	\$ 193,072
Cash received from fundraising events and merchandise sales	551,133	370,522
Cash payments received on mortgages receivable and homeowner payments	340,557	618,072
Cash received from refundable advance	118,307	114,900
Cash received from other sources	23,882	8,419
Interest received	308	153
Cash paid to employees	(649,568)	(585,944)
Cash paid to vendors	(548,573)	(504,928)
Interest paid	(33,563)	(35,852)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	198,245	178,414
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(6,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	80,000
Principal payments on line of credit	-	(100,000)
Proceeds from long-term debt	732,355	200,000
Principal payments on long-term debt	(924,043)	(141,871)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(191,688)	38,129
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,557	209,578
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	262,792	53,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 269,349	\$ 262,792

The accompanying notes are an integral part of these statements.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization - Two Rivers Habitat for Humanity (the "Organization") seeks to eliminate poverty housing from the region through the construction and rehabilitation of simple, decent, and affordable homes, built in partnership with working families. Our goal is to eliminate cycles of generational poverty by providing responsible, cost-effective homeownership opportunities, along with comprehensive homeownership education programs. We are a volunteer-driven organization, supported by a small, dedicated staff and are supported by donations. In addition, we also operate a "ReStore," a retail operation, where donated home furnishings, building material, appliances and other items are sold to the community at a greatly reduced price. The sole purpose of the ReStore is to generate funds to assist in the Organization's main purpose of building homes.

During 2018, the Boards of Rochester Area Habitat for Humanity and Habitat for Humanity of Steele-Waseca Area voted to approve a merger of operations between the Organization, previously named Rochester Area Habitat for Humanity, with the Habitat for Humanity of Steele-Waseca Area, based out of Owatonna, Minnesota. The merger, described in Note 15, was effective January 1, 2019 and the merged Organization operates under the new name Two Rivers Habitat for Humanity.

The Organization is an IRS nonprofit corporation, organized under the laws of the state of Minnesota, that is supported by individuals, businesses, places of worship, and other local community and civic organizations. It is an affiliate in good standing of Habitat for Humanity International, and participates in the global housing ministry of Habitat for Humanity through tithing a portion of its local revenue in support of international home construction.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all receivables, payables and other liabilities.

Basis of Presentation - The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

The Organization is required to report information regarding its net assets and its activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Recent Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (Topic 842) effective for annual reporting periods beginning after December 15, 2019. ASU 2020-05 subsequently deferred the effective date for ASU 2016-02 until annual reporting periods beginning after December 15, 2021. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of financial position, the new ASU will require both types of leases to be recognized on the statement of financial position. The ASU will also require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements providing additional information about the amounts recorded in the financial statements. The Organization is currently evaluating the impact this guidance will have on the financial statements.

In September 2020, the FASB issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) effective for annual reporting periods beginning after June 15, 2021. Under the new guidance, gifts-in-kind will be required to be presented as a separate line item on the statements of activities and additional disclosures will be required. The Organization is currently evaluating the impact this guidance will have on the financial statements.

Cash and Cash Equivalents – The Organization’s cash and cash equivalents consists of cash on deposit with banks. For purposes of the statements of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization does not have any cash equivalents at June 30, 2021 and 2020.

Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a nominal interest rate applicable to the year in which the promise is received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Management provides for uncollectible amounts through a provision for uncollectible pledge expense from outstanding balances and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. Management believes all receivables are collectible; accordingly, no allowance has been recorded.

Mortgages Receivable - Mortgage receivable consists of non-interest bearing mortgages that are secured by real estate located in Southeastern Minnesota and payable in monthly installments over the life of the loan. Mortgages are carried at their current present value.

Mortgages of up to 90 days past due receive numerous written and verbal correspondence from the Organization. At 90 days, if no workout or payment plan has been established and agreed upon with the homeowner, the mortgagor will be declared to be in default, which initiates the foreclosure process in accordance with Minnesota state law. The Organization will make every effort to bring the mortgagor back on track with payment schedules. Foreclosure is the least desirable outcome and will only be used when all negotiation and attempts of settlement have occurred and failed.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies – Continued

Inventory - Revenue from the ReStore is recognized at the time the goods are sold; therefore, no value for the inventory of the ReStore is included in these financial statements.

Construction in Process - Construction in process consists of costs incurred to build homes for resale.

Remainder Interest in Gift Annuity- The Organization has been named as the beneficiary of an annuity agreement entered into between an individual and Habitat for Humanity International. The Organization records its interest in this annuity agreement at the current market value of the related assets less the estimated liability for the actuarially determined present value of payments to be made to the designated beneficiaries. The value of the gift annuity is considered net assets with donor restrictions since the amount is not available until the termination of the annuity agreement.

Property and Equipment - All acquisitions of property and equipment in excess of \$1,000 with useful lives greater than five years are capitalized. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Life</u>
Equipment	5 - 7 years
Vehicles	5 years
Building and improvements	7 - 39 years

Valuation of Long-lived Assets - U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No assets are considered to be impaired at June 30, 2021 and 2020.

Revenue Recognition - The Organization records the following exchange transaction revenue in its statement of activities and changes in net assets:

Transfers to Homeowner and Home Repair Income: revenue from the sale of completed homes and repair projects is recognized upon the closing of the sale of the property or the completion of the home repair project.

Special Event Revenue: the portion of ticket sales and sponsorship that relates to the commensurate value the attendee receives in return is recognized when the related events are held and performance obligations are met. Included in special events on the statements of activities is the contribution portion related to ticket sales and sponsorships.

ReStore Sales: Revenue is recognized when the goods are delivered to the buyer.

Contribution Recognition - Contributions are recognized when received or unconditionally pledged. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Contribution Recognition, continued - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue 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 a restriction expires, 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.

Grant Recognition - Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions - Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant awards that are exchange transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

In-Kind Contributions - The Organization records the value of donated goods when there is an objective basis to measure the value. Donated goods are reflected as in-kind contribution revenue. Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization. A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been satisfied.

Transfers to Homeowners - Transfers to homeowners represent the revenues realized from the sale of the constructed homes, and are recorded at the gross mortgage amount, when the title passes to eligible purchasers. Non-interest bearing mortgages issued during the fiscal year have been fully discounted based upon prevailing market rates for low income housing at the inception of the mortgage. This amount is noted as "Discounts on Mortgages Receivable" on the Organization's Statement of Functional Expenses. The discounts on the mortgages are recognized as interest income over the term of the mortgage. As the cumulative discounts on all homes previously constructed by the Organization gradually reduce as mortgage payments are made, this amount is recognized as "Mortgage Discount Amortization" revenue on the Organization's statement of activities, utilizing the effective interest method. There were two homes transferred to a homeowner during the year ended June 30, 2021, and one home transferred in June 30, 2020.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Those expenses include rent, depreciation, salaries and wages, benefits, payroll taxes, and certain office expenses, which are allocated based on estimates of time and usage as determined by management.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Advertising Costs - Advertising costs are expensed as incurred.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. 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 differ from those estimates.

Tax Status - The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from State taxation.

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purpose to conform to the presentation of the current year's financial statements.

Subsequent Events - The Organization evaluated subsequent events through December 9, 2021, the date which the financial statements were available to be issued.

NOTE 2 - Concentration of Cash and Credit Risk

The Organization may have deposits with a financial institution at times during the year that exceed the Federal Deposit Insurance Corporation (FDIC) insurance threshold of \$250,000. The amount of the accounting loss that the Organization would have incurred had the financial institution not been able to return monies in excess of \$250,000 amounted to \$97,680 and \$-0- as of June 30, 2021 and 2020, respectively. The Organization does not require collateral or other security to support deposits subject to this credit risk.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following as of June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 269,349	\$ 262,792
Investments	496	-
Accounts receivable	300	-
Home repair projects receivable in less than one year	8,170	7,065
Mortgages receivable in less than one year	270,759	273,648
Unconditional promises to give receivable in less than one year	<u>11,395</u>	<u>11,395</u>
Less amounts not available for general expenditure within one year:		
Net assets with donor restrictions – purpose restricted	<u>165</u>	<u>-</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 560,304</u>	<u>\$ 554,900</u>

Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization anticipates collecting sufficient revenues to cover general expenditures and typically generate positive cash flows.

To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$200,000, of which \$200,000 was available at June 30, 2021 and June 30, 2020, respectively which it could draw upon.

NOTE 4 - Mortgages Receivable and Concentrations of Credit Risk

The Organization constructs and sells homes to individuals under non-interest bearing mortgages. The individuals are required to make mortgage payments for periods ranging from 20 to 25 years. All of the mortgages receivable are secured by the homes sold. The ability of the borrowers to repay the mortgages is partially dependent upon the economic strength of the area.

For financial reporting purposes, these mortgages used imputed interest rates ranging from 5.25% to 8.06%. This rate is provided by Habitat for Humanity International and is based upon an average of the monthly IRS Low Income Housing Credit Annual Discount Rates. Interest is recognized for financial reporting as the mortgages mature.

Generally, the homes have a fair market value at the date of sale that exceeds the contract sales price making them a secured creditor, thus, management feels no provision for loan losses is required. In consideration for receiving a bargain purchase price and receiving a non-interest bearing mortgage, the purchasers are restricted in their ability to mortgage or sell the home. If the original owner decides to sell, the Organization has the option to repurchase the home or receive a portion of the realized gain from the sale.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 4 - Mortgages Receivable and Concentrations of Credit Risk - Continued

The following table summarizes the payment status of the mortgage loan receivable balances as of June 30:

	<u>2021</u>		<u>2020</u>	
	<u>NUMBER</u>	<u>BALANCE</u>	<u>NUMBER</u>	<u>BALANCE</u>
Current	56	\$ 3,049,972	60	\$ 3,275,931
30 days past due	8	508,688	3	44,778
31 - 60 days past due	-	-	4	261,259
61 or more days past due	4	153,584	1	109,801
Discount representing imputed interest		<u>(1,647,531)</u>		<u>(1,615,127)</u>
MORTGAGES RECEIVABLE, NET	<u>68</u>	<u>\$ 2,064,713</u>	<u>68</u>	<u>\$ 2,076,642</u>

NOTE 5 - Unconditional Promises to Give

As of June 30, 2021 and 2020 promises to give represents amounts due from local businesses and a not-for-profit organization. These promises to give have not been discounted and are expected to be received in less than one year. The Organization does not estimate a reserve for uncollectible promises to give, as uncollectible promises to give have historically been small and the amounts involved are believed not to be material.

NOTE 6 - Property and Equipment

A summary of property and equipment is as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 187,355	\$ 187,355
Buildings and improvements	921,503	922,423
Equipment and software	29,268	49,289
Vehicles	<u>82,757</u>	<u>82,757</u>
	1,220,883	1,241,824
Less: Accumulated depreciation	<u>(275,901)</u>	<u>(263,495)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 944,982</u>	<u>\$ 978,329</u>

NOTE 7 - Line of Credit

The Organization has a line of credit of \$200,000 which matures on April 24, 2022. The interest rate was 3.25% for the years ended June 30, 2021 and 2020. The agreement is collateralized by substantially all assets of the Organization. The outstanding balance on the line of credit was \$0 the years ended June 30, 2021 and 2020.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 8 - Paycheck Protection Program (PPP) Loan

PPP, Round 1 - The Organization was granted a \$114,900 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$114,900 as grant revenue for the year ended June 30, 2021. The loan was fully forgiven as of May 12, 2021.

PPP, Round 2 - The Organization was granted a \$118,307 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2021. The Organization will be required to repay any remaining balance, plus interest accrued at 1 percent in monthly payments commencing in July 10, 2022, principal and interest payments will be required through the maturity date February 10, 2026.

NOTE 9 - Long-Term Debt and Pledged Assets

The Organization has borrowed funds in the form of non-interest bearing and interest bearing promissory notes from Habitat For Humanity of Minnesota (HFHMN) for the funding of home construction. The loan is secured by mortgages receivable with outstanding balances of \$1,278,765 and \$1,554,280 as of June 30, 2021 and 2020, respectively. The non-interest bearing notes have been discounted using an imputed rate of 3%.

The Organization had borrowed funds from a local bank for funding the building of the Habitat ReStore. The loan, with a balance of \$762,839 as of June 30, 2020, was secured by the Habitat ReStore building and mortgages receivable of \$76,643 as of June 30, 2020. The loan was refinanced with a different local bank during the year ended June 30, 2021 and is fully secured by the Habitat ReStore building.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 9 - Long-Term Debt and Pledged Assets - Continued

The Organization's notes payable are as follows at June 30:

	2021	2020
Note with HFHMN non-interest bearing promissory note, due in varying monthly installments, final maturity date December 2046	\$ 1,135,938	\$ 1,228,779
Note with HFHMN 2.25% promissory note payable in monthly installments of \$383, including principal and interest, due September 2037	-	66,125
Note with local bank, 4.39% promissory note payable in monthly installments of \$5,972, including principal and interest, due August 2024	-	762,839
Note with local bank, 3.60% promissory note payable in monthly installments of \$5,272, including principal and interest, due April 2036	730,117	-
	1,866,055	2,057,743
Discount on non-interest bearing notes	(247,223)	(274,937)
TOTAL LONG-TERM DEBT	\$ 1,618,832	\$ 1,782,806

Aggregate maturities of long-term debt for the five years and thereafter following June 30, 2021, calculated at the amended payment amount, are as follows:

2022	126,193
2023	125,230
2024	120,656
2025	107,129
2026	106,887
Thereafter	1,279,960
TOTAL	\$ 1,866,055

NOTE 10 - Second and Third Mortgages

In order to retain the value of the cumulative community investment of volunteer labor and resources into constructed homes, the Organization may execute nonrecourse, nonperforming second and third mortgages for homes sold. The principal amount of these mortgages is the difference between the bargain sale price of the home to the homeowner and the true market value of the home, as determined by a qualified appraisal at the time of sale. The second (and third) mortgage has the effect of making the "gift" of equity, made possible by community volunteer service, over time instead of immediately upon the original sale to homeowner.

The principal balance of second and third mortgages remains constant for the first seven years of its existence, then begins to self-forgive in equal monthly installments starting in year 8. If the homeowner is determined to be in default on their first mortgage, or notifies Organization of their intent to sell their home, payment on the balance of the second mortgage becomes due. Therefore, the amount is not recorded in the financial statements. At June 30, 2021 and 2020, the gross value of the second and third mortgages held by the Organization was \$900,547 and \$900,547, respectively.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 11 - Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2021</u>	<u>2020</u>
Subject to the passage of time:		
Gift annuity	\$ 34,317	\$ 25,458
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	11,395	11,395
Subject to purpose restrictions:		
City of Kasson construction project	<u>165</u>	<u>-</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 45,877</u>	<u>\$ 36,853</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Satisfaction of time restrictions:		
Unconditional promises to give	<u>\$ 11,395</u>	<u>\$ 8,650</u>

NOTE 12 - In-Kind Contributions

The value of donated goods and services included as in-kind contributions in the financial statements and the corresponding expenses or assets are as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Construction materials	\$ 14,026	\$ 7,190
Professional fees	3,668	-
Special event items	<u>716</u>	<u>-</u>
TOTAL	<u>18,410</u>	<u>7,190</u>

NOTE 13 - Conditional Promises to Give

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Conditional promises to give at June 30, 2021 and 2020 consist of the following and are not included on the statement of activities:

	<u>2021</u>	<u>2020</u>
Contribution conditional on availability of donor funds	<u>\$ 47,500</u>	<u>\$ -</u>

NOTE 14 - Defined Contribution Pension Plan

The Organization sponsors a defined contribution pension plan covering substantially all employees that work at least 25 hours per week. The plan allows employees to defer a portion of their salary. The Organization may make a matching contribution up to 3% of employee deferrals. During the years ended June 30, 2021 and 2020, employer contributions were \$15,705 and \$15,420, respectively.

TWO RIVERS HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2021 AND 2020

NOTE 15 - Operating Lease

The Organization leases its current office space under a lease that commenced January 1, 2008 and expired February 28, 2019 and was renewed through February 28, 2022. The Organization also leases certain office equipment under a lease that commenced January 20, 2020. The combined base rental costs is \$1,964 per month. Rent expense under these leases for the years ended June 30, 2021 and 2020 was \$23,568 and \$22,872, respectively. Minimum annual payments under this lease agreement for the years ended June 30 is as follows:

2022	14,328
2023	1,392
2024	1,392
2025	1,392

NOTE 16 - Risks and Uncertainties

COVID-19 Pandemic - During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Organization is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Organization is not known.

NOTE 17 - Subsequent Event

Assumption of Debt - In August 2021, the Organization assumed control of 22 mortgages, with an approximate principal value of \$1,023,000, previously owned by another, now legally dissolved, Habitat for Humanity affiliate. The Organization also assumed responsibility for the debt, approximately \$354,000, incurred through the pledging of these mortgages as collateral for Asset Acceleration Loans from Habitat for Humanity of Minnesota.

PPP Round 2 - On November 2, 2021, the Organization was legally released from its second round PPP loan obligation.

Vehicle Purchase and Note Payable - In August 2021, the Organization committed to the purchase of a new vehicle and the payment of a note to finance the purchase. The note is secured by the vehicle and is payable in monthly installments of principal and interest over a five year period.