

**RACINE HABITAT FOR HUMANITY, INC.**

Audited Financial Statements  
with  
Independent Auditor's Report  
For the Year Ended June 30, 2019  
With Summarized Financial Information  
For the Year Ended June 30, 2018

**Racine Habitat for Humanity, Inc.**

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# GORDON J. MAIER & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

845 WISCONSIN AVENUE 12778 W. NORTH AVENUE, BLDG A  
RACINE, WISCONSIN 53403 BROOKFIELD, WISCONSIN 53005

262-634-7108 262-432-0640  
262-634-5069 (Fax) 262-432-0642 (Fax)  
www.gjmlp.com (Web) cpa@gjmlp.com (E-mail)

JULIE A. CRAIG, CPA  
MICHAEL P. SLYE, CPA  
RICHARD J. KUTCH, CPA  
E. THOMAS JEZO, CPA

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JOSEPH L. NIXA, CPA  
GEORGE L. GISSELL, CPA  
FRANKLIN M. TRESCH, CPA

September 10, 2019

To the Board of Directors  
Racine Habitat for Humanity, Inc.  
Racine, Wisconsin

## Independent Auditor's Report

### Report on the Financial Statements

We have audited the accompanying financial statements of Racine Habitat for Humanity, Inc. (a Non-Profit Organization), which comprise the Statement of Financial Position as of June 30, 2019, and the related Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses 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 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 company'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 company'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.

## **Emphasis of a Matter**

As discussed in Note 12 to the financial statements, for the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities, (Topic 958): ***Presentation of Financial Statements of Not-for-Profit Entities***. This update addresses the complexity and understandability of net classification, information about liquidity and availability of resources, methods used to allocate costs, and directions for consistency about the information provided about expenses and investment return. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in the financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions. Our opinion is not modified with respect to this matter.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Racine Habitat for Humanity, Inc. as of September 10, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Gordon J. Maier & Company, LLP  
Certified Public Accountants

**Racine Habitat for Humanity, Inc.**  
**Statement of Financial Position**  
**June 30, 2019**  
**With Summarized Financial Information**  
**June 30, 2018**

	2019	Restated 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 1)	\$ 192,795	\$ 154,724
Other Receivables	9,054	11,054
Prepaid Expenses	5,136	5,891
Mortgage Escrow Deposits Held (Note 1)	247,910	241,082
Mortgage Notes Receivable - Current Portion (Notes 1 & 4)	150,981	74,124
<b>Total Current Assets</b>	<u>605,876</u>	<u>486,875</u>
<b>Property and Equipment (Note 1)</b>		
Land	32,400	32,400
Building and Improvements	136,811	134,486
Furniture and Equipment	120,378	117,894
Vehicles	64,162	76,776
	<u>353,751</u>	<u>361,556</u>
<b>Less: Accumulated Depreciation</b>	<u>118,457</u>	<u>114,352</u>
<b>Net Property and Equipment</b>	<u>235,294</u>	<u>247,204</u>
<b>Other Assets</b>		
Land Held for Development, Net (Note 1)	27,221	20,488
Construction in Progress, Net (Notes 1 & 5)	382,063	558,874
Mortgage Notes Receivable, Net (Notes 1 & 4)	1,635,022	1,619,412
Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. (Note 3)	67,776	66,068
Investments (Notes 1 & 2)	541,757	489,560
<b>Total Other Assets</b>	<u>2,653,839</u>	<u>2,754,402</u>
<b>Total Assets</b>	<u>\$ 3,495,009</u>	<u>\$ 3,488,481</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 33,304	\$ 26,259
Accrued Expenses	14,393	9,288
Mortgagee Escrow Deposits (Note 1)	249,663	243,297
<b>Total Current Liabilities</b>	<u>297,360</u>	<u>278,844</u>
<b>Net Assets</b>		
Without Donor Restrictions		
Undesignated	2,909,460	3,043,569
Designated	67,776	66,068
With Donor Restrictions (Note 6)	220,413	100,000
<b>Total Net Assets</b>	<u>3,197,649</u>	<u>3,209,637</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 3,495,009</u>	<u>\$ 3,488,481</u>

The Accompanying Notes are an integral  
part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**  
**With Summarized Financial Information for the Year Ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2019 Totals</b>	<b>Restated 2018 Totals</b>
<b>Public Support and Revenue</b>				
Home Sales and Financing	\$ 546,808	\$ -	\$ 546,808	\$ 425,313
ReStore Sales	307,920	-	307,920	297,106
Contributions	78,760	3,575	82,335	96,294
In-Kind Donations	353,799	-	353,799	333,266
Grants	19,194	150,000	169,194	103,610
Other Income	62,107	-	62,107	47,765
<b>Total Public Support and Revenue</b>	<u>1,368,588</u>	<u>153,575</u>	<u>1,522,163</u>	<u>1,303,354</u>
<b>Net Assets Released from Restrictions</b>	<u>33,162</u>	<u>(33,162)</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>				
<b>Program Services</b>				
Construction	966,541	-	966,541	767,991
ReStore	445,472	-	445,472	429,717
<b>Total Program Services</b>	<u>1,412,013</u>	<u>-</u>	<u>1,412,013</u>	<u>1,197,708</u>
<b>Support Services</b>				
Management and General	115,328	-	115,328	110,210
Fundraising	6,810	-	6,810	19,789
<b>Total Expenses</b>	<u>1,534,151</u>	<u>-</u>	<u>1,534,151</u>	<u>1,327,707</u>
<b>Changes in Net Assets</b>	<u>(132,401)</u>	<u>120,413</u>	<u>(11,988)</u>	<u>(24,353)</u>
<b>Net Assets – July 1, As Previously Stated</b>	3,221,692	-	3,221,692	3,233,990
<b>Prior-Period Adjustment (Note 15)</b>	<u>(112,055)</u>	<u>100,000</u>	<u>(12,055)</u>	<u>-</u>
<b>Net Assets – July 1, As Restated</b>	<u>3,109,637</u>	<u>100,000</u>	<u>3,209,637</u>	<u>3,233,990</u>
<b>Net Assets - June 30,</b>	<u>\$ 2,977,236</u>	<u>\$ 220,413</u>	<u>\$ 3,197,649</u>	<u>\$ 3,209,637</u>

The Accompanying Notes are an integral  
part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**  
**With Summarized Financial Information for the Year Ended June 30, 2018**

	<b>2019</b>	<b>Restated 2018</b>
<b>Cash Flows from Operating Activities</b>		
Changes in Net Assets	<u>\$ (11,988)</u>	<u>\$ (24,353)</u>
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	16,719	11,689
Unrealized (Gains) on Investments	(52,197)	(41,325)
Discount on Mortgage Originations	248,421	183,697
Amortization of Discount on Mortgages	(136,808)	(140,313)
Home Sales Through Mortgages Issued	(410,000)	(285,000)
Impairment of Construction in Progress and Land Held for Development	-	-
Change in Interest in Assets Held by the Racine Community Foundation, Inc.	(1,708)	(5,430)
(Increase) Decrease in Operating Assets		
Other Receivables	2,004	2,149
Prepaid Expenses	755	(885)
Mortgage Escrow Deposits Held	(6,827)	4,320
Land Held for Development	(6,733)	6,023
Construction in Progress	176,811	25,896
Increase (Decrease) in Operating Liabilities		
Accounts Payable	7,041	(102,002)
Accrued Expenses	5,105	180
Deferred Revenue	-	(100,000)
Mortgagee Escrow Deposits	6,366	(1,218)
<b>Total Adjustments</b>	<u>(151,051)</u>	<u>(442,219)</u>
<b>Net Cash Used in Operating Activities</b>	<u>(163,039)</u>	<u>(466,572)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of Property and Equipment	(4,809)	(48,307)
Collection of Mortgage Notes Receivable	205,919	205,601
<b>Net Cash Provided by Investing Activities</b>	<u>201,110</u>	<u>157,294</u>
<b>Net Increase (Decrease) in Cash</b>	38,071	(309,278)
<b>Cash and Cash Equivalents - July 1,</b>	<u>154,724</u>	<u>464,002</u>
<b>Cash and Cash Equivalents - June 30,</b>	<u>\$ 192,795</u>	<u>\$ 154,724</u>

The Accompanying Notes are an integral  
part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2019**  
**With Summarized Financial Information for the Year Ended June 30, 2018**

----- **Program Services** -----

	<b>Construction</b>	<b>ReStore</b>	<b>Total Program Services</b>
Building Maintenance	\$ 3,786	\$ 811	\$ 4,597
Cost of ReStore Sales	-	312,465	312,465
Cost of Home Sales	527,487	-	527,487
Depreciation (Note 1)	11,703	2,508	14,211
Discount on Mortgage Originations	248,421	-	248,421
Dues, Publications and Training	1,962	420	2,382
Hand Tools and Supplies	4,255	912	5,167
Impairment of Construction in Progress and Land Help for Development	10,084	-	10,084
Insurance	13,199	2,828	16,027
Miscellaneous Expense	384	84	468
Office Expense	15,699	3,364	19,063
Professional Fees	12,862	2,756	15,618
Promotions and Advertising (Note 1)	1,127	242	1,369
Rent Expense	-	78,158	78,158
Salaries, Wages, and Payroll Taxes	91,836	35,838	127,674
Tithe to Habitat for Humanity International, Inc. (Note 9)	4,200	900	5,100
Utilities	9,348	2,003	11,351
Vehicle Expenses	4,287	919	5,206
Volunteer Expenses	4,616	989	5,605
Warehouse Expenses	1,285	275	1,560
<b>Total Operating Expenses</b>	<b>\$ 966,541</b>	<b>\$ 445,472</b>	<b>\$ 1,412,013</b>

The Accompanying Notes are an integral  
part of these Financial Statements.



--- Supporting Services ---

				<b>Restated</b>
<b>Management and General</b>	<b>Fundraising</b>	<b>2019 Total</b>	<b>2018 Total</b>	
\$ 811	\$ -	\$ 5,408	\$ 10,277	
-	-	312,465	295,084	
-	-	527,487	398,240	
2,508	-	16,719	11,689	
-	-	248,421	183,696	
420	-	2,802	3,160	
912	-	6,079	8,205	
-	-	10,084	1,074	
2,828	-	18,855	18,161	
86	-	554	1,346	
3,364	6,810	29,237	50,830	
2,756	-	18,374	12,840	
242	-	1,611	3,097	
-	-	78,158	78,158	
96,315	-	223,989	215,425	
900	-	6,000	10,000	
2,003	-	13,354	9,567	
919	-	6,125	10,858	
989	-	6,594	3,941	
275	-	1,835	2,059	
<b>\$ 115,328</b>	<b>\$ 6,810</b>	<b>\$ 1,534,151</b>	<b>\$ 1,327,707</b>	

The Accompanying Notes are an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies**

**Organization**

Racine Habitat for Humanity, Inc. (Organization) is a not-for-profit organization formed on June 16, 1988 to build and rehabilitate homes which are then resold at favorable terms to qualified families. The Organization is affiliated with Habitat for Humanity International, Inc. that was organized for religious, charitable, and educational purposes in order to implement the gospel of Jesus Christ by working with economically disadvantaged people to help them create a better human habitat in which to live and work. The Organization is exempt from Federal income taxes under its present method of operating provided in Section 401(c)(3) of the Internal Revenue Code. Having qualified for exemption under provisions of the Internal Revenue Code, the Organization is also exempt from Wisconsin income taxes as provided in Chapter 181 of the Wisconsin Statutes.

The Organization's primary program activity is the construction, rehabilitation, sale, and financing of houses for individuals in need in the City of Racine and nearby areas. These individuals participate in the construction of their own homes and other homes constructed through the efforts of the Organization.

The Organization also operates a store (ReStore) that sells recycled materials, including new and used home building materials and furnishings. Substantially all ReStore inventory is donated.

**Basis of Presentation**

Financial statement presentation follows the standards of the FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets of the Organization and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions -**

**Undesignated:** Net assets that are not subject to donor-imposed restrictions or Board imposed stipulations.

**Designated:** Net assets subjected to stipulations imposed by the Board of Directors and determined to be unavailable for general use.

**Net Assets With Donor Restrictions**— Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Contributions and Grants**

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Restricted contributions received are considered net assets with donor restrictions until expenses are incurred in compliance with the donor's 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 Statement of Activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which contributions are received are classified as without donor restrictions.

**Use of Estimates**

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

Significant estimates used in preparing these financial statements include those assumed in the valuing of investments at fair value. An estimate regarding a possible loss on these investments cannot be made due to the fluctuating nature of market conditions. It is at least reasonably possible that the estimates will change within the next year depending on market conditions.

**Subsequent Events**

The Organization has evaluated subsequent events through September 10, 2019, the date on which the financial statements were available to be issued.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash and investments that have an original maturity date of less than three months. For the purpose of the Statement of Cash Flows, the Organization considers cash and cash equivalents as currency on hand, demand deposits, money markets, and certificates of deposit with original maturities of three months or less.

**Property and Equipment**

Expenditures for the acquisitions of property and equipment are capitalized at cost. The fair value of donated property at the date of the gift is similarly capitalized. It is the Organization's policy to capitalize all property and equipment expenditures greater than \$1,000 with useful lives of at least one year. Certain expenditures less than \$1,000 may be capitalized at the discretion of management. Expenditures for minor maintenance and repairs of property and equipment to maintain facilities in operating condition are generally expensed as incurred. Major replacements and repairs are capitalized.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Property and Equipment...(cont.)**

Depreciation is computed by the straight-line method over the following estimated useful lives:

	<b>Years</b>
Building and Improvements	3 - 40
Furniture and Equipment	5
Vehicles	5

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$16,719 and \$11,689, respectively.

**Mortgage Notes Receivable**

The Organization's portfolio of mortgage notes receivable include first and second trust deeds for direct loans made by the Organization. The first mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers. Each mortgage note receivable is secured with real estate and payable in monthly installments over the term of the note, generally ranging from twenty to thirty years. In accordance with accounting principles generally accepted in the United States of America, these non-interest bearing mortgages have been discounted based upon prevailing rates for low income housing at the inception of each mortgage.

The mortgage notes receivable resulting from the second trust deeds are referred to as "silent". The primary purpose of these silent mortgages is to allow the Organization to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years, usually ten, to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable typically bear no interest and are forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, the Organization does not record a value for these silent mortgage notes receivable.

**Allowance for Mortgage Notes Receivable**

The Organization uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest bearing mortgage loan from the Organization. This includes a thorough review of each prospective homeowner's credit report, sources of income, and financial history.

The Organization regularly reviews its portfolio notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are sixteen days past due are considered to be in an early stage of default. During the period of delinquency of sixteen to ninety days past due, the Organization contacts the borrower using collection efforts and establishes a payment plan with the homeowner, if necessary.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Allowance for Mortgage Notes Receivable (cont.)**

Thereafter, if forgoing collection efforts are not successful, the Organization attempts to enter into a mutually agreed-upon mortgage modification followed by a deed-in-lieu of foreclosure with the homeowner if a modification cannot be agreed upon. Homeowners whose mortgages are more than ninety days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with the Organization, are subject to foreclosure proceedings. For the years ended June 30, 2019 and 2018, the Organization did not execute any deed-in-lieu of foreclosure agreements.

Non-interest bearing mortgages originated are discounted at the time of sale based on historical experience from the Organization's portfolio mortgages and upon prevailing market rates. This results in the net mortgage receivables balances being less than 50% of the home's fair market value. Therefore, the Organization believes that losses resulting from non-payment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, the Organization does not record an allowance for mortgage notes receivable losses.

Mortgage notes receivable are considered impaired when, based on current information, it is probable that the Organization will not collect all amounts due in accordance with the terms of the agreement. The Organization has determined that there are no impaired loans as of June 30, 2019 and 2018.

**Donated Services**

Donated materials are recorded in the financial statements as assets and revenue or capitalized at their estimated fair market value on the date the materials are received. Donated services are recognized as contributions in accordance with FASB ASC 958, *Not-for-Profit Entities*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

The Organization receives a significant amount of donated services from a substantial number of unpaid volunteers. In addition, the prospective homeowners are required to contribute 300 hours of sweat equity toward the construction of homes. No amounts have been recognized in the financial statements for these services since they do not meet the criteria for recognition under FASB ASC 958, *Not-for-Profit Entities*.

The Organization received the following donated materials and services which are recorded in contributions and donations on the Statement of Activities as of June 30:

	<b>2019</b>	<b>2018</b>
Professional Services – Engineering	\$ 3,584	\$ 3,305
Professional Services – Auditing Services	5,090	\$ -
Materials		
Appliances	11,439	20,785
Property	15,000	10,000
Supplies	10,766	4,508
<b>Total</b>	<u>\$ 45,879</u>	<u>\$ 38,598</u>

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Donated Services....(cont.)**

The Organization also receives donated home furnishings, building and home improvement materials that are sold in the home improvement store (ReStore) operated by the Organization. Donated merchandise is valued at its estimated fair value. Cost of goods sold is recognized at the estimated fair value of donated merchandise sold, plus the costs to prepare the merchandise for sale. The Organization has not recognized inventory for these items as they are unique and have uncertainty about existence of value until there is a willing buyer and they are sold. Donated merchandise that is unsuitable for sale is recognized as revenue upon sale to a salvage dealer.

**Concentration of Risks**

**Cash**

The Organization maintains its cash accounts at various banks in Racine, Wisconsin. Accounts in the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019 and 2018, the Organization had \$214,069 and \$172,588, respectively, on deposit of which \$-0- and \$-0- were not insured by the FDIC.

**Investments**

The Organization maintains its investments at Vanguard. Securities held in the brokerage account are held in custody by Vanguard Brokerage Services, a division of Vanguard Marketing Corporation. Vanguard Marketing Corporation is a member of the Securities Investor Protection Corporation (SIPC), which protects securities of its members up to \$500,000, including \$250,000 for cash. Vanguard Marketing Corporation has secured additional coverage from certain insurers at Lloyd's of London and London Company Insurers for eligible customers with an aggregate limit of \$250 million, incorporating a customer limit of \$49.5 million for securities and \$1.75 million for cash. At June 30, 2019 and 2018, the Organization had \$541,757 and \$489,560, respectively, on deposit of which \$-0- and \$-0- were not insured by either the SIPC or the additional coverage secured by Vanguard Marketing Corporation.

**Home Sales**

Revenue is recognized on the sale of homes when the title passes to eligible purchasers by the completed contract method. The amount of home sale revenue the Organization records is the total of the cash down payment and the face value of the non-interest bearing mortgage note receivable. Due to subsidies provided by grants and contributions, the sale price of a home sold for the years ended June 30, 2019 and 2018 was approximately 76% and 69%, respectively, of the Organization's cost to construct the home.

**Land Held for Development**

Land held for development consists of purchased or donated land that will be developed for future home construction. Properties are valued at the lower of cost or market. A valuation allowance of \$8,544 and \$8,544 has been recorded as of June 30, 2019 and 2018, respectively.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Construction in Progress**

Construction in progress represents costs incurred to build or rehabilitate single-family homes for eventual sale to partner families. In the event development is no longer deemed to be probable, the costs previously capitalized are expensed. The Organization's projects consist of new single family homes and major rehabilitations of existing homes acquired by the Organization.

Costs of homes sold consist of capitalized home construction costs and certain other related costs associated with the sale of each home. Costs include all direct labor and benefits, materials, subcontract costs, and allocations of indirect construction costs. General and administrative costs are charged to expenses as incurred.

**Investments**

Investments are measured at fair value in the Statement of Financial Position. Investment income is reported in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions or law. Realized gains or losses are determined by specific identification.

**Mortgagee Escrow Deposits**

Mortgagee escrow deposits result from required payments made by all mortgage holders to cover the payment of real estate taxes and homeowner's insurance. The amounts held in trust are placed into separate interest bearing accounts on behalf of each mortgagee. The activity and balances for each account are reported to each mortgagee on a quarterly basis.

**Advertising Costs**

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended June 30, 2019 and 2018 totaled \$1,611 and \$3,097, respectively.

**Functional Allocation of Expenses**

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by management's use of estimates.

**Uncertain Tax Positions**

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income tax (UBIT).

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (cont.)**

**Uncertain Tax Positions (cont.)**

The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2019 and 2018. Accordingly, there is no accrued interest or penalties associated.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. None of the Organization's federal or state returns are currently under examination.

**Note 2. Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2019 and 2018.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

This information is an integral part of these Financial Statements.



**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 2. Fair Value Measurements** (cont.)

**Mutual Funds** - Valued at the net asset value (NAV) of shares on the last trading day of the year.

**Interest in Assets Held by the Racine Community Foundation, Inc.** - Valued at net asset value (NAV) per unit as reported by the Racine Community Foundation, Inc.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the balances of assets at fair value as of June 30, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
<b>Assets at Recurring Fair Value</b>				
<b>as of June 30, 2019</b>				
Mutual Funds	\$ 541,757	\$ -	\$ -	\$ 541,757
Interest in Assets Held by the Racine Community Foundation, Inc.	<u>-</u>	<u>-</u>	<u>67,776</u>	<u>67,776</u>
<b>Total Assets at Recurring Fair Value</b>	<b><u>\$ 541,757</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 67,776</u></b>	<b><u>\$ 609,533</u></b>
	Level 1	Level 2	Level 3	Total
<b>Assets at Recurring Fair Value</b>				
<b>as of June 30, 2018</b>				
Mutual Funds	\$ 489,560	\$ -	\$ -	\$ 489,560
Interest in Assets Held by the Racine Community Foundation, Inc.	<u>-</u>	<u>-</u>	<u>66,068</u>	<u>66,068</u>
<b>Total Assets at Recurring Fair Value</b>	<b><u>\$ 489,560</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 66,068</u></b>	<b><u>\$ 555,628</u></b>

**Note 3. Beneficial Interest in Assets Held by the Racine Community Foundation, Inc.**

In 1996, Racine Habitat for Humanity, Inc. established the Endowment Fund at the Racine Community Foundation, Inc. The fund was established to support the designated purposes of Racine Habitat for Humanity, Inc. The investment returns, net of trustee fees, are allocated to Racine Habitat for Humanity, Inc.'s endowment fund based on the endowment's average monthly balance in relationship to total funds invested by the Foundation. Investment income of the fund is distributed to Racine Habitat for Humanity, Inc. in such amounts and at such times as its Board of Directors, or their designee, may request.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 3. Beneficial Interest in Assets Held by the Racine Community Foundation, Inc.** (cont.)

Distributions of any fund principal amounts may be made for emergency purposes only and must be approved by at least 75% of Racine Habitat for Humanity, Inc.'s Board of Directors after the approval of the Board of Directors of Racine Community Foundation, Inc. If the Board of Directors of Racine Community Foundation, Inc. propose to exercise its variance power, the exercise of that power shall not be effective earlier than at least thirty days after the Racine Community Foundation, Inc. notifies Racine Habitat for Humanity, Inc. in writing of its intent and the manner in which Racine Community Foundation, Inc. proposes to vary the purposes, uses, or methods of administration of the fund. During the notice period, Racine Habitat for Humanity, Inc. may advise Racine Community Foundation, Inc. of its views regarding the proposed exercise of variance power and take such actions it deems appropriate. Racine Community Foundation, Inc. shall not exercise the variance power without taking into account the views of Racine Habitat for Humanity, Inc. As of June 30, 2019 and 2018, the Organization held \$67,776 and \$66,068, respectively, in beneficial interest in assets held by Racine Community Foundation, Inc.

The balance of the Board designated funds is reported as Board Designated Net Assets on the Statement of Financial Position.

The endowment fund held by Racine Community Foundation, Inc. is in pooled investment accounts. Investments held by the Foundation include common stocks, U.S. treasury notes, mutual funds, and other fixed income accounts. The investment returns, net of trustee fees, are allocated to Racine Habitat for Humanity, Inc.'s endowment fund based on the endowment's average monthly balance in relationship to total funds invested by the Foundation. The endowment fund's investment returns are composed of the following:

Investment Income	\$	966
Net Realized and Unrealized Gains (Losses)		1,388
Administrative Fees		(645)
		1,709
	\$	1,709

In addition, the Organization is the sole income beneficiary of an agency endowment fund held by the Racine Community Foundation, Inc. As of June 30, 2019 and 2018, the fair value of the net assets held by the Racine Community Foundation, Inc. in the agency endowment fund has been reported by the Racine Community Foundation, Inc. to be \$44,074 and \$42,963, respectively. Distribution of the investment income to the Organization is made on an annual basis. The Organization's interest in the agency endowment fund at the Racine Community Foundation, Inc. is not recognized in the Organization's financial statements because the Board of Directors of the Racine Community Foundation, Inc. has variance power over substantially all of these assets. There were no distributions made from the assets held by the Racine Community Foundation, Inc. for which the Organization is the designated beneficiary for the years ended June 30, 2019 and 2018.

**Note 4. Mortgage Notes Receivable**

Mortgage notes receivable consist primarily of non-interest bearing notes with terms between twenty and thirty years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of each mortgage, ranging from 7.39% to 9.00% per annum, as of June 30, 2019 and 2018.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 4. Mortgage Notes Receivable** (cont.)

The discount on each mortgage is amortized using the effective interest method. Mortgages that originated during 2019 and 2018 were discounted using an interest rate of 7.66% and 7.57% per annum, respectively. During the years ended June 30, 2019 and 2018, mortgage loan discount amortization recognized within home sales on the Statement of Activities was \$136,808 and \$140,313, respectively.

Mortgage notes receivable consist of the following as of June 30:

	<b>2019</b>	<b>2018</b>
Mortgage Notes Receivable	\$ 3,675,839	\$ 3,471,759
<b>Less:</b> Unamortized Discount to Present Value	<u>1,889,836</u>	<u>1,778,223</u>
Mortgage Notes Receivable, Net	<u>\$ 1,786,003</u>	<u>\$ 1,693,536</u>

Payments on mortgage notes receivable as of June 30, 2019 are estimated to be received as follows:

2020	\$ 150,981
2021	201,633
2022	191,716
2023	186,889
2024	183,914
Thereafter	<u>2,760,706</u>
<b>Total Mortgage Notes Receivable</b>	<u>\$3,675,839</u>

The following tables set forth the aging of the customer financing loan receivable as of June 30:

<b>2019 Delinquency Period</b>					
<b>30-59 Days</b>	<b>60-89 Days</b>	<b>Greater than 90 Days</b>	<b>Total Delinquent</b>	<b>Current</b>	<b>Total Balance at Year End</b>
<u>\$ 4,721</u>	<u>\$ 1,625</u>	<u>\$ 14,163</u>	<u>\$ 20,509</u>	<u>\$ 1,786,003</u>	<u>\$ 1,765,494</u>
<b>2018 Delinquency Period</b>					
<b>30-59 Days</b>	<b>60-89 Days</b>	<b>Greater than 90 Days</b>	<b>Total Delinquent</b>	<b>Current</b>	<b>Total Balance at Year End</b>
<u>\$ 5,250</u>	<u>\$ 2,253</u>	<u>\$ 13,815</u>	<u>\$ 21,318</u>	<u>\$ 1,693,536</u>	<u>\$ 1,672,218</u>

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 5. Construction in Progress**

Construction in progress consists of accumulated acquisition, construction and/or rehabilitation costs for homes being built or remodeled for program families. Construction in progress activity is as follows:

	<b>2019</b>	<b>2018</b>
Construction in Progress – Beginning of Year, Net	\$ 558,874	\$ 584,770
Costs Incurred	360,988	372,344
Cost of Homes Sold	(537,799)	(398,240)
Reversal of Impairment on Homes Sold		-
Loss on Impairment to Market Value		-
	<u>                    </u>	<u>                    </u>
Construction in Progress – End of Year, Net	<u>\$ 382,063</u>	<u>\$ 558,874</u>
Construction in Progress	\$ 403,266	\$ 580,077
<b>Less:</b> Reserve for Impairments	<u>21,203</u>	<u>21,203</u>
Construction in Progress, Net	<u>\$ 382,063</u>	<u>\$ 558,874</u>

**Note 6. Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted to the following purposes or periods:

<b>For the Year Ended June 30,</b>	
<b>Subject to Expenditure for Specified Purpose</b>	
Program Activities	
Construction for 1937 Mead Street	\$ 119,410
Construction for 2223 Mead Street	100,000
HFH Conference and Training	<u>1,003</u>
<b>Total Net Assets with Donor Restrictions</b>	<u><u>\$ 220,413</u></u>

**Note 7. ReStore**

ReStore activity during the years ended June 30, 2019 and 2018 consisted of the following:

	<b>2019</b>	<b>2018</b>
ReStore Cash Sales	\$ 307,920	\$ 297,106
ReStore In-Kind Donations	307,920	295,084
ReStore Program Expenses	<u>(445,472)</u>	<u>(429,717)</u>
<b>Total</b>	<u>\$ 170,368</u>	<u>\$ 162,473</u>

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 8. Operating Lease**

The Organization currently leases a facility on a month-to-month basis for their ReStore under a lease with a third party which requires the Organization to make monthly payments of \$6,513 as of June 30, 2019.

Total rent paid for the years ended June 30, 2019 and 2018 totaled \$78,158 and \$78,158, respectively.

**Note 9. Related Party Transactions**

The Organization tithes and remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, the Organization remitted \$6,000 and \$10,000, respectively, to Habitat for Humanity International, Inc.

**Note 10. Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**Note 11. Endowment**

Racine Habitat for Humanity, Inc. has established endowment funds. The funds were established to support the designated purposes of Racine Habitat for Humanity, Inc.

**Return Objectives and Risk Parameters (Investment Policy)**

See Note 3 under Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. for the return objectives and risk parameters (investment policy).

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, Racine Community Foundation, Inc. relies on total return strategy in which investment returns are achieved through pooled investment accounts. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

See Note 3 under Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. for the investment policy for the assets held at Racine Community Foundation, Inc.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 11. Endowment (cont.)**

**Endowment Net Asset Composition by Type of Fund as of June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board Designated Endowment Funds	<u>\$ 67,776</u>	<u>\$ -</u>	<u>\$ 67,776</u>

**Changes in Endowment Net Assets for the Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment Net Assets, Beginning of Year	<u>\$ 66,068</u>	<u>\$ -</u>	<u>\$ 66,068</u>
Investment Return			
Investment Income	965	-	965
Net Depreciation (Ralized and Unrealized)	<u>1,388</u>	<u>-</u>	<u>1,388</u>
Total Investment Return	<u>2,353</u>	<u>-</u>	<u>2,353</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of Endowment Assets For Expenditure	<u>(645)</u>	<u>-</u>	<u>(645)</u>
Endowment Net Assets, End of Year	<u>\$ 67,776</u>	<u>\$ -</u>	<u>\$ 67,776</u>

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**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 11. Endowment (cont.)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy (cont.)**

**Endowment Net Asset Composition by Type of Fund as of June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board Designated Endowment Funds	<u>\$ 66,068</u>	<u>\$ -</u>	<u>\$ 66,068</u>

**Changes in Endowment Net Assets for the Year Ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment Net Assets, Beginning of Year	<u>\$ 60,638</u>	<u>\$ -</u>	<u>\$ 60,638</u>
Investment Return			
Investment Income	789	-	789
Net Depreciation (Realized and Unrealized)	<u>4,641</u>	<u>-</u>	<u>4,641</u>
Total Investment Return	<u>5,430</u>	<u>-</u>	<u>5,430</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of Endowment Assets For Expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, End of Year	<u>\$ 66,068</u>	<u>\$ -</u>	<u>\$ 66,068</u>

**Note 12. Adoption of New Accounting Pronouncement**

For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities, (Topic 958): **Presentation of Financial Statements of Not-for-Profit Entities**. This update addresses the complexity and understandability of net classification, information about liquidity and availability of resources, methods used to allocate costs, and directions for consistency about the information provided about expenses and investment return. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in the financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

This information is an integral part of these Financial Statements.

**Racine Habitat for Humanity, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 13. Liquidity and Availability of Resources**

The Organization has \$352,830 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of substantially cash of \$192,795 and accounts receivable of \$160,035.

The Organization has addressed and is managing the cashflow for Racine Habitat for Humanity, Inc. and uses a variety of tools. The Organization has developed and instituted a monthly cashflow management report in dashboard form to assist in Board awareness surrounding liquidity and it is discussed at every Board meeting. The Board continually assesses the necessity and timing of the accounts payable, monitor their budget monthly, and have prepared a budget with planned reserves for 2020, which they are working to execute.

**Note 14. Expense Allocation**

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**Note 15. Prior Period Adjustment**

During the 2019 fiscal year, it was discovered the Mortgage Discount Amortization Summary Spreadsheet used in calculating the Discount on Mortgage Originations contained errors. This resulted in the discount not being reported accurately. The Organization has made the corrections and resulted in a decrease in nets assets by \$12,055.

**Note 16. Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

This information is an integral part of these Financial Statements.