

RACINE HABITAT FOR HUMANITY, INC.

Audited Financial Statements
with
Independent Auditor's Report
For the Year Ended June 30, 2020
With Summarized Financial Information
For the Year Ended June 30, 2019

Racine Habitat for Humanity, Inc.

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GORDON J. MAIER & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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October 12, 2020

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, 2020, 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.

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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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, 2020
With Summarized Financial Information
June 30, 2019

	2020	2019
Assets		
Current Assets		
Cash and Cash Equivalents (Note 1)	\$ 408,574	\$ 192,795
Other Receivables	7,277	9,054
Prepaid Expenses	4,646	5,136
Mortgage Escrow Deposits Held (Note 1)	259,288	247,910
Mortgage Notes Receivable - Current Portion (Notes 1 & 4)	90,718	150,981
Total Current Assets	<u>770,503</u>	<u>605,876</u>
Property and Equipment (Note 1)		
Land	32,400	32,400
Building and Improvements	145,549	136,811
Furniture and Equipment	123,378	120,378
Vehicles	68,436	64,162
	<u>369,763</u>	<u>353,751</u>
Less: Accumulated Depreciation	<u>136,253</u>	<u>118,457</u>
Net Property and Equipment	<u>233,510</u>	<u>235,294</u>
Other Assets		
Land Held for Development, Net (Note 1)	7,350	27,221
Construction in Progress, Net (Notes 1 & 5)	473,733	382,063
Mortgage Notes Receivable, Net (Notes 1 & 4)	1,646,001	1,635,022
Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. (Note 3)	68,540	67,776
Investments (Notes 1 & 2)	593,439	541,757
Total Other Assets	<u>2,789,063</u>	<u>2,653,839</u>
Total Assets	<u>\$ 3,793,076</u>	<u>\$ 3,495,009</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 21,250	\$ 33,304
Accrued Expenses	51,303	14,393
Mortgage Escrow Deposits (Note 1)	259,288	249,663
Total Current Liabilities	<u>331,841</u>	<u>297,360</u>
Net Assets		
Without Donor Restrictions		
Undesignated	3,061,605	2,909,460
Designated	68,540	67,776
With Donor Restrictions (Note 6)	331,090	220,413
Total Net Assets	<u>3,461,235</u>	<u>3,197,649</u>
Total Liabilities and Net Assets	<u>\$ 3,793,076</u>	<u>\$ 3,495,009</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, 2020
With Summarized Financial Information for the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Totals	2019 Totals
Public Support and Revenue				
Home Sales and Financing	\$ 353,223	\$ -	\$ 353,223	\$ 546,808
ReStore Sales	258,708	-	258,708	307,920
Contributions	144,683	-	144,683	82,335
In-Kind Donations	286,328	-	286,328	353,799
Grants	20,667	278,000	298,667	169,194
Fundraising - Playhouse	8,077	-	8,077	-
Other Income	2,502	-	2,502	6,774
Investment Gain (Loss)	56,478	-	56,478	55,333
Total Public Support and Revenue	<u>1,130,666</u>	<u>278,000</u>	<u>1,408,666</u>	<u>1,522,163</u>
Net Assets Released from Restrictions	<u>167,323</u>	<u>(167,323)</u>	<u>-</u>	<u>-</u>
Expenses				
Program Services				
Construction	739,255	-	739,255	966,541
ReStore	368,508	-	368,508	445,472
Total Program Services	<u>1,107,763</u>	<u>-</u>	<u>1,107,763</u>	<u>1,412,013</u>
Support Services				
Management and General	36,802	-	36,802	115,328
Fundraising	515	-	515	6,810
Total Expenses	<u>1,145,080</u>	<u>-</u>	<u>1,145,080</u>	<u>1,534,151</u>
Changes in Net Assets	<u>152,909</u>	<u>110,677</u>	<u>263,586</u>	<u>(11,988)</u>
Net Assets – July 1,	2,977,236	220,413	3,197,649	3,221,692
Net Assets - June 30,	<u>\$ 3,130,145</u>	<u>\$ 331,090</u>	<u>\$ 3,461,235</u>	<u>\$ 3,197,649</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, 2020
With Summarized Financial Information for the Year Ended June 30, 2019

	2020	2019
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 263,586	\$ (11,988)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	17,797	16,719
Unrealized (Gains) on Investments	(51,682)	(52,197)
Discount on Mortgage Originations	129,616	248,421
Amortization of Discount on Mortgages	(143,223)	(136,808)
Home Sales Through Mortgages Issued	(210,000)	(410,000)
Impairment of Construction in Progress and Land Held for Development	-	-
Change in Interest in Assets Held by the Racine Community Foundation, Inc.	(764)	(1,708)
(Increase) Decrease in Operating Assets		
Other Receivables	1,927	2,004
Prepaid Expenses	491	755
Mortgage Escrow Deposits Held	(11,378)	(6,827)
Land Held for Development	19,870	(6,733)
Construction in Progress	(91,820)	176,811
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(12,053)	7,041
Accrued Expenses	36,910	5,105
Deferred Revenue	-	-
Mortgagee Escrow Deposits	9,625	6,366
Total Adjustments	<u>(304,684)</u>	<u>(151,051)</u>
Net Cash Used in Operating Activities	<u>(41,098)</u>	<u>(163,039)</u>
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(16,013)	(4,809)
Collection of Mortgage Notes Receivable	272,890	205,919
Net Cash Provided by Investing Activities	<u>256,877</u>	<u>201,110</u>
Net Increase (Decrease) in Cash	215,779	38,071
Cash and Cash Equivalents - July 1,	<u>192,795</u>	<u>154,724</u>
Cash and Cash Equivalents - June 30,	<u><u>\$ 408,574</u></u>	<u><u>\$ 192,795</u></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, 2021
With Summarized Financial Information for the Year Ended June 30, 2020

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

	Construction	ReStore	Total Program Services
Building Maintenance	\$ 10,100	\$ 1,263	\$ 11,363
Cost of ReStore Sales	-	258,708	258,708
Cost of Home Sales	306,543	1,352	307,895
Depreciation (Note 1)	14,239	1,779	16,018
Discount on Mortgage Originations	129,616	-	129,616
Dues, Publications and Training	1,452	181	1,633
Hand Tools and Supplies	3,021	378	3,399
Homeowner Assistance	2,118	-	2,118
Impairment of Construction in Progress and Land Help for Development	3,984	-	3,984
Insurance	14,140	1,768	15,908
Miscellaneous Expense	144	18	162
Office Expense	22,424	2,481	24,905
Professional Fees	19,150	2,394	21,544
Promotions and Advertising (Note 1)	512	64	576
Rent Expense	-	71,645	71,645
Salaries, Wages, and Payroll Taxes	182,176	22,772	204,948
Tithe to Habitat for Humanity International, Inc. (Note 9)	8,000	1,000	9,000
Utilities	10,855	1,357	12,212
Vehicle Expenses	5,973	747	6,720
Volunteer Expenses	2,920	365	3,285
Warehouse Expenses	1,888	236	2,124
Total Operating Expenses	\$ 739,255	\$ 368,508	\$ 1,107,763

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

--- Supporting Services ---

	Management and General	Fundraising	2020 Total	2019 Total
\$	1,262	\$ -	\$ 12,625	\$ 5,408
	-	-	258,708	312,465
	-	-	307,895	527,487
	1,779	-	17,797	16,719
	-	-	129,616	248,421
	181	-	1,814	2,802
	378	-	3,777	6,079
	-	-	2,118	-
	-	-	3,984	10,084
	1,768	-	17,676	18,855
	18	-	180	554
	2,481	515	27,901	29,237
	2,394	-	23,938	18,374
	64	-	640	1,611
	-	-	71,645	78,158
	22,772	-	227,720	223,989
	1,000	-	10,000	6,000
	1,357	-	13,569	13,354
	747	-	7,467	6,125
	365	-	3,650	6,594
	236	-	2,360	1,835
\$	36,802	\$ 515	\$ 1,145,080	\$ 1,534,151

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

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019

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.

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, 2020 and 2019

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:

	Years
Building and Improvements	3 - 40
Furniture and Equipment	5
Vehicles	5

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$17,797 and \$16,719, 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, 2020 and 2019

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 year ended June 30, 2020, 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, 2020 and 2019.

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:

	2020	2019
Professional Services – Engineering	\$ 6,525	\$ 3,584
Professional Services – Auditing Services	12,002	5,090
Materials		
Appliances	-	11,439
Property	-	15,000
Supplies	9,094	10,766
Total	<u>\$ 27,621</u>	<u>\$ 45,879</u>

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, the Organization had \$415,111 and \$214,069, 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, 2020 and 2019, the Organization had \$503,760 and \$541,757, 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, 2020 and 2019 was approximately 68% and 76%, 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, 2020 and 2019, respectively.

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019 totaled \$640 and \$1,611, 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, 2020 and 2019

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, 2020 and 2019. 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 2017, 2018 and 2019 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

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, 2020 and 2019.

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 the balances of assets at fair value as of June 30, 2020 and 2019:

Assets Valued at Net Asset Value	As of June 30, 2020	As of June 30, 2019
	\$ 661,979	\$ 609,533

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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.

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, 2020 and 2019, 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.

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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

The endowment fund's investment returns are composed of the following:

Investment Income	\$	924
Net Realized and Unrealized Gains (Losses)		514
Administrative Fees		<u>(674)</u>
	\$	<u>764</u>

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, 2020 and 2019, 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 \$44,571 and \$44,074, 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, 2020 and 2019.

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, 2020 and 2019.

The discount on each mortgage is amortized using the effective interest method. Mortgages that originated during 2020 and 2019 were discounted using an interest rate of 7.38% and 7.66% per annum, respectively. During the years ended June 30, 2020 and 2019, mortgage loan discount amortization recognized within home sales on the Statement of Activities was \$129,616 and \$136,808, respectively.

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Note 4. Mortgage Notes Receivable (cont.)

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

	2020	2019
Mortgage Notes Receivable	\$ 3,730,333	\$ 3,675,839
Less: Unamortized Discount to Present Value	<u>1,993,614</u>	<u>1,889,836</u>
Mortgage Notes Receivable, Net	<u>\$ 1,736,719</u>	<u>\$ 1,786,003</u>

Payments on mortgage notes receivable as of June 30, 2020 are estimated to be received as follows:

2021	\$ 208,101
2022	198,185
2023	202,657
2024	181,084
2025	185,504
Thereafter	<u>2,754,802</u>
Total Mortgage Notes Receivable	<u>\$3,730,333</u>

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

2020 Delinquency Period					
30-59 Days	60-89 Days	Greater than 90 Days	Total Delinquent	Current	Total Balance at Year End
<u>\$ 3,727</u>	<u>\$ 1,714</u>	<u>\$ 6,565</u>	<u>\$ 12,006</u>	<u>\$ 1,736,719</u>	<u>\$ 1,724,713</u>
2019 Delinquency Period					
30-59 Days	60-89 Days	Greater than 90 Days	Total Delinquent	Current	Total Balance at Year End
<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>

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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:

	2020	2019
Construction in Progress – Beginning of Year, Net	\$ 382,063	\$ 558,874
Costs Incurred	423,049	360,988
Cost of Homes Sold	(331,380)	(537,799)
Reversal of Impairment on Homes Sold		
Loss on Impairment to Market Value		
	<u> </u>	<u> </u>
Construction in Progress – End of Year, Net	<u>\$ 473,733</u>	<u>\$ 382,063</u>
Construction in Progress	\$ 494,935	\$ 403,266
Less: Reserve for Impairments	21,203	21,203
Construction in Progress, Net	<u>\$ 473,733</u>	<u>\$ 382,063</u>

Note 6. Net Assets with Donor Restrictions

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

For the Year Ended June 30,	
Subject to Expenditure for Specified Purpose	
Program Activities	
Construction for 1937 Racine Street	\$ 62,314
Construction for 2223 Mead Street	63,907
Construction for 2105 Mead Street	113,480
Construction for 618 13th Street	88,522
HFH Conference and Training	2,367
Crisis Fund	<u>500</u>
Total Net Assets with Donor Restrictions	<u>\$ 331,090</u>

Note 7. ReStore

ReStore activity during the years ended June 30, 2020 and 2019 consisted of the following:

	2020	2019
ReStore Cash Sales	\$ 258,708	\$ 307,920
ReStore In-Kind Donations	258,708	307,920
ReStore Program Expenses	<u>(368,508)</u>	<u>(445,472)</u>
Total	<u>\$ 148,908</u>	<u>\$ 170,368</u>

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020.

Total rent paid for the years ended June 30, 2020 and 2019 totaled \$71,645 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, 2020 and 2019, the Organization remitted \$10,000 and \$6,000, 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, 2019, 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, 2020 and 2019

Note 11. Endowment (cont.)

Endowment Net Asset Composition by Type of Fund as of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	<u>\$ 68,540</u>	<u>\$ -</u>	<u>\$ 68,540</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	<u>\$ 67,776</u>	<u>\$ -</u>	<u>\$ 67,776</u>
Investment Return			
Investment Income	924	-	924
Net Depreciation (Realized and Unrealized)	<u>514</u>	<u>-</u>	<u>514</u>
Total Investment Return	<u>1,438</u>	<u>-</u>	<u>1,438</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of Endowment Assets For Expenditure	<u>(674)</u>	<u>-</u>	<u>(674)</u>
Endowment Net Assets, End of Year	<u>\$ 68,540</u>	<u>\$ -</u>	<u>\$ 68,540</u>

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	<u>\$ 66,068</u>	<u>\$ -</u>	<u>\$ 66,068</u>
Investment Return			
Investment Income	965	-	965
Net Depreciation (Realized 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>

Note 12. Subsequent Events

Management has evaluated all subsequent events through October 12, 2020, for possible inclusion for a disclosure in the financial statements. The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 will impact the various parts of its 2020/2021 operations and financial results, including revenues, support, expenses, and cash flows. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing,

This information is an integral part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Note 13. Liquidity and Availability of Resources

The Organization has \$506,419 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 \$408,574 and accounts receivable of \$97,845.

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 2021, 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.

This information is an integral part of these Financial Statements.