

**HABITAT FOR HUMANITY
LAKESIDE, INC.**

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Lakeside, Inc.
Sheboygan, Wisconsin

We have audited the accompanying financial statements of Habitat for Humanity Lakeside, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Lakeside, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Huberty & Associates, S.C.

Fond du Lac, Wisconsin
November 15, 2019

**HABITAT FOR HUMANITY LAKESIDE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 136,762	\$ 85,146
Accounts receivable	7,240	-
Promises to give	-	1,000
House construction in process	48,418	208,929
Prepaid expenses	6,887	2,513
Mortgages receivable, net of discounts	409,506	378,912
Land held for development	113,632	136,576
Property and equipment, net	411,516	429,632
Total Assets	<u>\$ 1,133,961</u>	<u>\$ 1,242,708</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 21,345	\$ 52,250
Accrued liabilities	20,383	23,769
Note payable	187,968	198,532
Total Liabilities	<u>229,696</u>	<u>274,551</u>
Net Assets:		
Without donor restrictions:		
Undesignated	879,037	910,157
Board designated	22,737	55,000
Total Unrestricted	<u>901,774</u>	<u>965,157</u>
With donor restrictions	<u>2,491</u>	<u>3,000</u>
Total Net Assets	<u>904,265</u>	<u>968,157</u>
Total Liabilities and Net Assets	<u>\$ 1,133,961</u>	<u>\$ 1,242,708</u>

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

HABITAT FOR HUMANITY LAKESIDE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:						
Support:						
Contributions - cash	\$ 186,103	\$ 6,500	\$ 192,603	\$ 36,981	\$ 28,500	\$ 65,481
Contributions - non-cash	12,478	-	12,478	10,000	-	10,000
Net assets released from restrictions	7,009	(7,009)	-	68,189	(68,189)	-
Total Support	205,590	(509)	205,081	115,170	(39,689)	75,481
Revenues:						
Transfers to homeowners	395,500	-	395,500	114,000	-	114,000
Mortgage discount amortization	29,558	-	29,558	37,235	-	37,235
Resale store sales (less direct expenses of \$251,109 and \$228,760, respectively)	59,198	-	59,198	79,586	-	79,586
Fundraising proceeds (less direct expenses of \$573 and \$1,800, respectively)	36,267	-	36,267	3,454	-	3,454
Interest income	289	-	289	116	-	116
Program service fees	9,144	-	9,144	4,600	-	4,600
Loss on sale of property	(720)	-	(720)	(2,191)	-	(2,191)
Gain from sale of mortgages receivable	118,819	-	118,819	173,188	-	173,188
Miscellaneous	3,571	-	3,571	110	-	110
Total Revenues	651,626	-	651,626	410,098	-	410,098
Total Revenues and Other Support	857,216	(509)	856,707	525,268	(39,689)	485,579
Operating Expenses:						
Program services	811,105	-	811,105	369,202	-	369,202
Management and general	89,341	-	89,341	115,946	-	115,946
Fundraising	20,153	-	20,153	19,027	-	19,027
Total Operating Expenses	920,599	-	920,599	504,175	-	504,175
Change in Net Assets	(63,383)	(509)	(63,892)	21,093	(39,689)	(18,596)
Net Assets:						
Beginning of year	965,157	3,000	968,157	944,064	42,689	986,753
End of year	\$ 901,774	\$ 2,491	\$ 904,265	\$ 965,157	\$ 3,000	\$ 968,157

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

HABITAT FOR HUMANITY LAKESIDE, INC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Building expenses:								
Materials, supplies and property acquisition costs	\$ 429,599	\$ -	\$ -	\$ 429,599	\$ 131,560	\$ -	\$ -	\$ 131,560
On-site expenditures	2,798	-	-	2,798	6,942	-	-	6,942
Mortgage discount expense	208,117	-	-	208,117	60,434	-	-	60,434
Mission specific cost	2,272	-	-	2,272	4,244	-	-	4,244
Tithe to HFHI	1,000	-	-	1,000	5,727	-	-	5,727
HFHI fees	8,700	-	-	8,700	7,500	-	-	7,500
Payroll expenses	99,915	64,363	19,290	183,568	85,070	87,739	18,440	191,249
Office expenses:								
Rent	2,000	-	-	2,000	3,000	-	-	3,000
Insurance	11,130	7,420	-	18,550	12,985	8,657	-	21,642
Telephone	462	923	462	1,847	311	620	311	1,242
Seminars	1,124	1,123	-	2,247	1,496	1,495	-	2,991
Office supplies	5,635	5,634	-	11,269	7,133	7,132	-	14,265
Postage and printing	401	201	401	1,003	276	137	276	689
Professional fees	-	8,605	-	8,605	-	9,094	-	9,094
Depreciation	15,575	1,072	-	16,647	18,439	1,072	-	19,511
Facilities	3,841	-	-	3,841	6,298	-	-	6,298
Advertising expenses	1,738	-	-	1,738	1,196	-	-	1,196
Volunteer expense	-	-	-	-	980	-	-	980
Vehicle	3,056	-	-	3,056	3,865	-	-	3,865
Interest expense	15	-	-	15	3,528	-	-	3,528
Other expense	515	-	-	515	80	-	-	80
Fundraising event supplies	-	-	573	573	-	-	1,800	1,800
Program expenses	5,011	-	-	5,011	8,138	-	-	8,138
Home dedication	8,201	-	-	8,201	-	-	-	-
Resale store expenses	251,109	-	-	251,109	228,760	-	-	228,760
	1,062,214	89,341	20,726	1,172,281	597,962	115,946	20,827	734,735
Less: resale store expenses and fundraising expenses netted against revenue	251,109	-	573	251,682	228,760	-	1,800	230,560
Total Expenses	<u>\$ 811,105</u>	<u>\$ 89,341</u>	<u>\$ 20,153</u>	<u>\$ 920,599</u>	<u>\$ 369,202</u>	<u>\$ 115,946</u>	<u>\$ 19,027</u>	<u>\$ 504,175</u>

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

HABITAT FOR HUMANITY LAKESIDE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (63,892)	\$ (18,596)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Discounts on mortgages issued	208,117	60,434
Mortgage discount amortization	(29,558)	(37,235)
Gain from sale of mortgages receivable	(118,819)	(173,188)
Transfers to homeowners	(341,000)	(100,000)
Depreciation	16,647	19,511
Donated land	(10,000)	(10,000)
Loss on sale of property	720	2,191
Effects of changes in operating assets and liabilities:		
Accounts receivable	(7,240)	2,600
Promises to give	1,000	(1,000)
House construction in process	160,511	(151,430)
Prepaid expenses	(4,374)	5,642
Land held for development	32,944	1,227
Accounts payable	(30,905)	4,027
Accrued liabilities	(3,386)	838
Deferred revenue	-	(10,000)
Net Cash Flows from Operating Activities	<u>(189,235)</u>	<u>(404,979)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of mortgages receivable	197,438	388,973
Purchase of property and equipment	-	(14,099)
Proceeds from sale of property	750	-
Payments on mortgages receivable	53,228	52,951
Net Cash Flows from Investing Activities	<u>251,416</u>	<u>427,825</u>
Cash Flows from Financing Activities:		
Payments on line of credit	-	(65,000)
Payments on long-term debt	(10,565)	(10,122)
Net Cash Flows from Financing Activities	<u>(10,565)</u>	<u>(75,122)</u>
Net Change In Cash	51,616	(52,276)
Cash:		
Beginning of year	85,146	137,422
End of year	<u>\$ 136,762</u>	<u>\$ 85,146</u>

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity Lakeside, Inc., (the “Organization”) is a non-profit organization that is an affiliate of Habitat for Humanity International, Inc. (HFHI). HFHI is a non-denominational Christian not-for-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere.

Although HFHI assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operations. Such operations are conducted within the Habitat for Humanity Lakeside, Inc. area (Sheboygan County) and include acquisition of real estate to be improved, purchase of building materials, organization of construction/rehabilitation labor (volunteer and paid) and financing of the sale of its completed projects. The Organization targets those in low income economic groups, selling homes at no profit and financing them with non-interest bearing loans.

The Organization also operates a resale store in Sheboygan County, the profits from which help further the Organization’s purpose.

A summary of the Organization’s significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States of America generally accepted accounting principles.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.

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

In June 2018, the Organization amended their by-laws to establish a cash reserve fund that will maintain a balance of no less than \$250,000. If the balance is below the \$250,000 minimum, the Board of Directors shall allocate no less than \$10,000 in the fiscal year budget. Any transfers to cover operational cash flow shortages must be approved by the Board President or Treasurer. Such transfers must be repaid within 3 months. The Finance Committee may grant an extension until the next board meeting, and then the Board of Directors may grant extensions with a 2/3 majority. This reserve fund may be used for capital improvements or to fund new initiatives, as long as the expense does not deplete the fund to below \$50,000. The entire reserve fund may be used to cover emergency expenses with a unanimous vote of the Board of Directors.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

Cash includes all highly liquid investment with an initial maturity of three months or less. At June 30, 2019 and 2018, the Organization did not have deposits in excess of insured limits.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of grantors or purchasers of services to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has determined that the allowance for doubtful accounts is zero at June 30, 2019 and 2018.

Promises to give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give at June 30, 2019 and 2018 were \$0 and \$1,000, respectively. All promises to give are expected to be collected within the next year.

The carrying amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management has determined that the valuation allowance for pledges receivable is zero at June 30, 2019 and 2018.

Property and Equipment

Property and equipment are stated at cost or, if donated, at estimated fair value. The Organization's capitalization policy is to capitalize all assets with an economic life greater than three years with a minimum cost of \$1,000.

Depreciation for financial statement purposes has been computed using a straight-line method based on a useful life of five to seven years for equipment and thirty-nine years for building and improvements. Depreciation charged to operations for the years ended June 30, 2019 and 2018 was \$16,647 and \$19,511 respectively.

Liquidity and Availability of Resources

As part of the Organization's liquidity management, it strives to maintain liquid financial assets sufficient to cover at least 180 days of general expenditures and maintain a checking account with a balance generally sufficient to pay between 30 and 90 days of general expenditures. Funds in excess of the requirements will be invested in short-term investments, such as money market accounts. The Organization holds assets in the form of first mortgages that could be sold to banks. The Organization could also draw upon a \$200,000 available line of credit (as discussed in Note I).

Mortgages Receivable

Mortgages receivable consists of non-interest bearing mortgages which are secured by real estate and are payable in monthly installments over the life of the mortgage. The mortgage loans are discounted to recognize that they do not bear interest.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Mortgages Receivable – Continued

The Organization considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. Every effort is made to assist the homeowners who have been delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or the Organization may accept a deed in lieu of foreclosure where homeowners mortgage payments are seriously delinquent. Properties acquired through foreclosure or a deed in lieu of foreclosure are generally refurbished in partnership with, and sold to, other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgage receivables as of June 30, 2019 and 2018.

Each home that the Organization sells will be sold at the fair market value determined by an independent appraiser. The repayable first mortgage must be affordable for the homebuyer over the life span of the loan. The Organization defines affordability as setting a homeowner's monthly mortgage payment at 23% of gross monthly income at the time of consummation (loan closing). The mortgage payment shall include principal and escrow for property taxes and homeowner's insurance. All mortgage terms shall be at minimum of 20 years. However, if the monthly payment on a 20-year term is not affordable, the term will be increased up to a maximum of 30 years.

The Organization will provide a subsidy in the form of a subordinate lien to protect any equity at closing. The difference between the sales price (appraised value) and the first mortgage (repayable), plus any other funds applied to the sale, will be secured with a deferred subordinate lien (referred to as a "silent second mortgage"). The term of the silent second mortgage will match the term of the first mortgage. No monthly payments will be due from the homeowner on this note. The silent second mortgage will be forgiven at an equal percent per year on the anniversary date of the loan. Early payment in full of the first mortgage will not satisfy the terms of the subordinate mortgage. The homeowner would be responsible to repay any remaining balance on the silent second mortgage at the point in time the homeowner sells, transfers, conveys any beneficial interest in the property, or upon the refinancing of the first mortgage.

The second mortgage is collected after the first mortgage is satisfied and after certain other liens are satisfied. The second mortgages are designed to prevent the homeowner from selling the home and reaping a substantial benefit. The value of second mortgages not recorded totaled \$286,889 and \$304,058 at June 30, 2019 and 2018, respectively.

Contribution Recognition

Contributions are recognized as revenue when they are received or unconditionally promised. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. A large number of volunteers have contributed their time during the years ended June 30, 2019 and 2018 to the Organization's construction program. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition

Grant revenue is recognized in the period in which the related expenditures are incurred and grant milestone deadlines and requirements are met.

Revenue from transfers to homeowners is recognized in the period in which ownership of the home is transferred and is recorded at the gross mortgage amount of payments to be received over the lives of the mortgages. The gross mortgage amount generally approximates the construction cost incurred and paid for by the Organization.

Donations to Resale Stores

The Organization operates a resale store (ReStore) located in Sheboygan. All of the items sold in the ReStore are donated. Donations of ReStore items are not valued nor carried in inventory due to the uncertainty about the existence of value. The items are considered to have no value or indeterminate value until they are sold. Revenue from resale stores is recognized when payment is tendered at the time of sale.

Sales Tax

The Organization collects sales tax from its ReStore customers and remits the entire amount to the appropriate governmental entities. The Organization's accounting policy is to exclude the tax collected and remitted from revenues and direct expenses of resale store sales.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was \$2,811 and \$1,751 for the years ended June 30, 2019 and 2018.

Functional Expense Allocations

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. The financial statements report certain categories of expenses that are attributed to program services, general administration, or fundraising. General ledger accounts that can be directly attributed to a category are assigned to that category. Payroll related accounts are allocated based on a time estimate at the discretion of management. All other general accounts that cannot be directly allocated to either category are allocated on the discretion of management.

Income Taxes

The Organization has been classified as an other-than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business.

The Organization has evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2019 and 2018.

All years not closed by statute of limitations in jurisdictions remain open for examination.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounting Standards Update

During the year ended June 30, 2019, the Organization implemented the following statements of financial accounting standards issued by the Financial Accounting Standards Board:

Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, effective for the year ended June 30, 2019. This Update requires a not-for-profit to:

- present on the face of the statement of financial position amounts for two classes: net assets with donor restrictions and net assets without donor restrictions.
- present on the face of the statement of activities the amount of the change in each of the two classes of net assets
- continue to present the statement of cash flows using either the direct or indirect method of reporting, but no longer require the presentation of the indirect method (reconciliation) if using the direct method.
- provide enhanced disclosures related to self-imposed limits on use of resources, composition of net assets with donor restrictions, qualitative and quantitative information of liquidity management, method(s) used to allocate costs, and underwater endowment fund.
- report investment return net of external and direct internal investment expenses.
- use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets.

Additionally, FASB has issued the following standards which will be effective in subsequent years and are expected to have an impact on the Organization:

Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective for the fiscal year ending June 30, 2020. This Update results in changes to the timing of when an Organization will recognize income. Revenues will be recognized when the promised goods or services are transferred to its customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. This Update also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. In conjunction with implementing 2014-09, the Organization will also implement the following Updates related to revenue recognition: 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, and 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.

HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Accounting Standards Update

Update 2016-02, *Leases (Topic 842)*, effective for the fiscal year ending June 30, 2021. This Update results in significant changes to financial reporting and disclosures related to both operating and capital (finance) leases. The new leases standard is intended to increase the transparency and comparability among companies that lease buildings, equipment and other assets by recognizing the assets and liabilities that arise from these lease transactions on the statement of financial position. In conjunction with implementing 2016-02, the Academy will also implement the following Updates related to leases: 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, 2018-10, *Codification Improvements to Topic 842, Leases*, 2018-11, *Leases (Topic 842): Targeted Improvements*, 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, and 2019-01, *Leases (Topic 842): Codification Improvements*.

Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, effective for the fiscal year ending June 30, 2020. This Update addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows.

Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, effective for the fiscal year beginning after June 30, 2020. This Update requires that a statement of cash flows explain changes in the amount of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents should be included in both the beginning and ending cash balances presented in the statement of cash flows, as well as their changes included in cash flows for operations, financing and investing activities, as appropriate.

Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, effective for the fiscal year ending June 30, 2020 or June 30, 2021 depending on whether the entity serves as the resource recipient or resource provider, respectively. This Update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional.

The Organization will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE B – CHANGE IN ACCOUNTING PRINCIPLE

The Organization has implemented ASU 2016-14 *Presentation of Financial Statements of Not-For-Profit Entities*. The financial statements for the year ended June 30, 2018 were changed to reclassify \$965,157 of unrestricted net assets as net assets without donor restrictions and \$3,000 of temporarily restricted net assets as net assets with donor restrictions. Total net assets remained unchanged.

HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Financial assets, at year-end	\$ 156,381
Less those unavailable for general expenditures within one year, due to:	
Funds designated by the board	22,737
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	<u>2,491</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 131,153</u></u>

The board has designated \$22,737 as a reserve fund as described in the net asset section of note A. Although the board does not intend to spend these amounts, they are available if deemed necessary.

NOTE D – UNCONDITIONAL PROMISE TO GIVE

The Organization has unconditional promise to give expected to be collected as follows at June 30:

	<u>2019</u>		<u>2018</u>
Less than one year	\$ -		\$ 1,000

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>		<u>2018</u>
Equipment	\$ 101,192		\$ 106,806
Building and improvements	419,309		419,309
Land	<u>66,800</u>		<u>66,800</u>
	587,301		592,915
Less accumulated depreciation	<u>175,785</u>		<u>163,283</u>
	<u><u>\$ 411,516</u></u>		<u><u>\$ 429,632</u></u>

NOTE F – HOUSE CONSTRUCTION IN PROCESS AND LAND HELD FOR DEVELOPMENT

The Organization purchases lots and homes for construction and renovation. Costs that are incurred before construction or renovation begins are capitalized as part of the lot or home. After construction or renovation has begun, costs associated with the project are accumulated in a construction in process account on the statements of financial position until the construction or renovation is completed. These homes are then sold to those in need based upon the Organization's selection criteria. As of June 30, 2019, the total cost of house construction in process and land held for development was \$48,418 and \$113,632, respectively. As of June 30, 2018, the total cost of house construction in process and land held for development was \$208,929 and \$136,576, respectively.

HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE G – MORTGAGES RECEIVABLE

The Organization services the mortgages on the homes constructed and sold to qualifying families. The mortgages are interest free and have been discounted at prevailing market rates for low income housing at the inception of the mortgages. Discounts are amortized using the straight-line method over the life of the loan. At June 30, 2019, the carrying value of the non-interest bearing mortgage loan receivables of \$865,783 is shown net of the total unamortized discount of \$456,277. At June 30, 2018, the carrying value of the non-interest bearing mortgage loan receivables of \$777,487 is shown net of the total unamortized discount of \$398,575.

Annual collection of mortgages receivables, net of the amortized discount, for the years subsequent to June 30, 2019 are due as follows:

2020	\$ 12,379
2021	11,138
2022	11,476
2023	12,410
2024	13,420
Thereafter	<u>348,683</u>
	<u>\$ 409,506</u>

All mortgages receivable payments were current as of June 30, 2019.

During the year ended June 30, 2019, mortgages with a carrying value of \$78,619 were sold for \$197,438. A gain of \$118,819 was recognized as a result of the sale. During the year ended June 30, 2018, mortgages with a carrying value of \$215,785 were sold for \$388,973. A gain of \$173,188 was recognized as a result of the sale.

NOTE H – LINE OF CREDIT

The Organization has a \$200,000 line of credit with a bank that expires in August 2019. Under this agreement, interest is payable as of June 30, 2019 at bank's prime rate plus 0.5% (6.0% as of June 30, 2019), but no less than 4%. As of June 30, 2018, interest was payable at the Wall Street Journal's prime rate plus 0.5% (5.5% as of June 30, 2018). The line of credit is secured by all business assets of the Organization. There was no outstanding balance at June 30, 2019 and 2018.

NOTE I – LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note payable to refinance a mortgage with a bank with monthly payment of \$1,576 including principal and interest at 4.25%. Final payment due in June 2020 secured by building.	\$ 187,968	\$ 198,532
Less current maturities	<u>(187,968)</u>	<u>(10,689)</u>
	<u>\$ -</u>	<u>\$ 187,843</u>

Future maturities of long-term debt for years subsequent to June 30, 2019 are as follows:

2020	<u>\$ 187,968</u>
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**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE J – NET ASSETS RESTRICTIONS/DESIGNATIONS

The Organization's net assets with donor restrictions are subject to the following restrictions for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Subject to purpose restrictions		
Faith build	\$ 2,491	\$ -
Promises to give	-	1,000
VISTA	-	2,000
Total net assets with donor restrictions	<u>\$ 2,491</u>	<u>\$ 3,000</u>

The Organization's net assets without donor restrictions are designated by the Board for the following purpose for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Reserve fund	<u>\$ 22,737</u>	<u>\$ 55,000</u>

NOTE K – TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL, INC. (HFHI)

The Organization annually remits a portion of its contributions (excluding in-kind contributions) and ReStore net profits to HFHI. 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 contributed \$9,700 and \$13,227 to HFHI, respectively.

NOTE L – LEASES

The Organization leased a storage unit on a month-to-month basis and terminated the lease in March 2019. The lease required monthly payment of \$500 and was equally shared between the Organization and ReStore. Rent expense amounted to \$4,000 and \$6,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE M – RESALE STORES DIRECT EXPENSES

Resale stores direct expenses consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Payroll expenses	\$ 171,677	\$ 140,926
Rent	2,000	3,000
Utilities	11,351	12,478
Repairs and maintenance	10,455	4,516
Insurance	14,814	13,682
Credit card fees	6,191	5,105
Cost of goods sold	-	5,723
Volunteer expenses	2,433	1,756
Dumpster	5,743	13,465
Vehicle expense	5,609	5,901
Supplies	4,774	8,787
Telephone	1,898	2,457
Interest expense	8,368	8,810
Advertising and printing	1,074	556
Other	4,722	1,598
	<u>\$ 251,109</u>	<u>\$ 228,760</u>

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE N – SIGNIFICANT CONCENTRATIONS

Contributions from two donors accounted for approximately 49% of contribution revenue for the year ended June 30, 2019. Three donors accounted for approximately 46% of contribution revenue for the year ended June 30, 2018.

NOTE O – SUPPLEMENTARY CASH FLOW DISCLOSURES

The Organization received \$12,478 and \$10,000 of non-cash contributions during the year ended June 30, 2019 and 2018, respectively.

Cash paid for interest was \$8,383 and \$12,315 for the years ended June 30, 2019 and 2018, respectively.

NOTE P – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 15, 2019, the date on which financial statements were available to be issued.