

**HABITAT FOR HUMANITY
LAKESIDE, INC.**

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

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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, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Huberty & Associates, S.C.

Fond du Lac, Wisconsin
November 23, 2021

HABITAT FOR HUMANITY LAKESIDE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|----------------------------|----------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 468,863 | \$ 96,244 |
| Accounts receivable | 15,511 | 3,874 |
| Promises to give, net of discount | 118,500 | 102,332 |
| House construction in process | 197,965 | 1,970 |
| Prepaid expenses | 8,631 | 6,551 |
| Mortgages receivable, net of discounts | 443,622 | 456,193 |
| Land held for development | 103,662 | 103,662 |
| Property and equipment, net | 506,474 | 529,717 |
| Total Assets | <u>\$ 1,863,228</u> | <u>\$ 1,300,543</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Accounts payable | \$ 12,433 | \$ 815 |
| Escrow Deposits | 432 | - |
| Accrued liabilities | 18,435 | 18,310 |
| Line of credit | - | 63,000 |
| Notes payable | 323,927 | 257,146 |
| Total Liabilities | <u>355,227</u> | <u>339,271</u> |
| Net Assets: | | |
| Without donor restrictions: | | |
| Undesignated | 1,386,069 | 852,207 |
| Board designated | 1,065 | 845 |
| Total Unrestricted | <u>1,387,134</u> | <u>853,052</u> |
| With donor restrictions | <u>120,867</u> | <u>108,220</u> |
| Total Net Assets | <u>1,508,001</u> | <u>961,272</u> |
| Total Liabilities and Net Assets | <u>\$ 1,863,228</u> | <u>\$ 1,300,543</u> |

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

HABITAT FOR HUMANITY LAKESIDE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | | | 2020 | | |
|--|----------------------------|-------------------------|--------------|----------------------------|-------------------------|------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues and Other Support: | | | | | | |
| Support: | | | | | | |
| Contributions - cash | \$ 393,029 | \$ 88,500 | \$ 481,529 | \$ 243,350 | \$ 109,500 | \$ 352,850 |
| Contributions - non-cash | - | - | - | 12,000 | - | 12,000 |
| Grants | 93,900 | - | 93,900 | - | - | - |
| Net assets released from restrictions | 75,853 | (75,853) | - | 3,771 | (3,771) | - |
| Total Support | 562,782 | 12,647 | 575,429 | 259,121 | 105,729 | 364,850 |
| Revenues: | | | | | | |
| Transfers to homeowners | 1,000 | - | 1,000 | 129,000 | - | 129,000 |
| Mortgage discount amortization | 34,807 | - | 34,807 | 34,825 | - | 34,825 |
| Resale store sales (less direct expenses of \$200,626 and \$245,036, respectively) | 151,051 | - | 151,051 | 39,391 | - | 39,391 |
| Fundraising proceeds (less direct expenses of \$1,894 and \$1,486, respectively) | 42,206 | - | 42,206 | 50,251 | - | 50,251 |
| Interest income | 221 | - | 221 | 154 | - | 154 |
| Program service fees | 18,880 | - | 18,880 | 6,829 | - | 6,829 |
| Loss on sale of property | 5,500 | - | 5,500 | - | - | - |
| Miscellaneous | 3,880 | - | 3,880 | 294 | - | 294 |
| Gain on extinguishment of PPP loan | 153,990 | - | 153,990 | - | - | - |
| Total Revenues | 411,535 | - | 411,535 | 260,744 | - | 260,744 |
| Total Revenues and Other Support | 974,317 | 12,647 | 986,964 | 519,865 | 105,729 | 625,594 |
| Operating Expenses: | | | | | | |
| Program services | 267,540 | - | 267,540 | 459,658 | - | 459,658 |
| Management and general | 123,161 | - | 123,161 | 88,082 | - | 88,082 |
| Fundraising | 49,534 | - | 49,534 | 20,847 | - | 20,847 |
| Total Operating Expenses | 440,235 | - | 440,235 | 568,587 | - | 568,587 |
| Change in Net Assets | 534,082 | 12,647 | 546,729 | (48,722) | 105,729 | 57,007 |
| Net Assets: | | | | | | |
| Beginning of year | 853,052 | 108,220 | 961,272 | 901,774 | 2,491 | 904,265 |
| End of year | \$ 1,387,134 | \$ 120,867 | \$ 1,508,001 | \$ 853,052 | \$ 108,220 | \$ 961,272 |

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

HABITAT FOR HUMANITY LAKESIDE, INC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | | | | 2020 | | | |
|---|-------------------|------------------------|------------------|-------------------|-------------------|------------------------|------------------|-------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Building expenses: | | | | | | | | |
| Materials, supplies and property acquisition costs | \$ 15,675 | \$ - | \$ - | \$ 15,675 | \$ 162,234 | \$ - | \$ - | \$ 162,234 |
| On-site expenditures | - | - | - | - | 1,779 | - | - | 1,779 |
| Mortgage discount expense | 2,969 | - | - | 2,969 | 69,648 | - | - | 69,648 |
| Mission specific cost | 1,208 | - | - | 1,208 | 2,073 | - | - | 2,073 |
| HFHI fees | 5,500 | - | - | 5,500 | 10,500 | - | - | 10,500 |
| Payroll expenses | 164,544 | 96,295 | 48,337 | 309,176 | 138,602 | 67,507 | 19,749 | 225,858 |
| Office expenses: | | | | | | | | |
| Insurance | 2,068 | 1,379 | - | 3,447 | 6,643 | 4,429 | - | 11,072 |
| Telephone | 732 | 1,462 | 732 | 2,926 | 665 | 1,331 | 665 | 2,661 |
| Seminars | 1,801 | 1,800 | - | 3,601 | 973 | 972 | - | 1,945 |
| Office supplies | 9,253 | 9,253 | - | 18,506 | 5,827 | 5,827 | - | 11,654 |
| Postage and printing | 465 | 233 | 465 | 1,163 | 433 | 217 | 433 | 1,083 |
| Professional fees | - | 11,428 | - | 11,428 | - | 6,521 | - | 6,521 |
| Depreciation | 21,932 | 1,311 | - | 23,243 | 18,531 | 1,278 | - | 19,809 |
| Facilities | 11,561 | - | - | 11,561 | 9,014 | - | - | 9,014 |
| Advertising expenses | 1,907 | - | - | 1,907 | 4,679 | - | - | 4,679 |
| Vehicle | 3,144 | - | - | 3,144 | 7,380 | - | - | 7,380 |
| Interest expense | 5,563 | - | - | 5,563 | 1,057 | - | - | 1,057 |
| Other expense | 1,122 | - | - | 1,122 | 1,735 | - | - | 1,735 |
| Fundraising event supplies | - | - | 1,894 | 1,894 | - | - | 1,486 | 1,486 |
| Program expenses | 16,201 | - | - | 16,201 | 12,179 | - | - | 12,179 |
| Home dedication | 1,895 | - | - | 1,895 | 5,706 | - | - | 5,706 |
| Resale store expenses | 200,626 | - | - | 200,626 | 245,036 | - | - | 245,036 |
| | 468,166 | 123,161 | 51,428 | 642,755 | 704,694 | 88,082 | 22,333 | 815,109 |
| Less: resale store expenses and fundraising expenses netted against revenue | 200,626 | - | 1,894 | 202,520 | 245,036 | - | 1,486 | 246,522 |
| Total Expenses | <u>\$ 267,540</u> | <u>\$ 123,161</u> | <u>\$ 49,534</u> | <u>\$ 440,235</u> | <u>\$ 459,658</u> | <u>\$ 88,082</u> | <u>\$ 20,847</u> | <u>\$ 568,587</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, 2021 AND 2020

| | 2021 | 2020 |
|--|-------------|-------------|
| Cash Flows from Operating Activities: | | |
| Change in Net Assets | \$ 546,729 | \$ 57,007 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Discounts on mortgages issued | - | 69,648 |
| Mortgage discount amortization | (34,807) | (34,825) |
| Gain on extinguishment of PPP loan | (153,990) | - |
| Transfers to homeowners | - | (128,000) |
| Depreciation | 23,243 | 19,809 |
| Loss on sale of property | (5,500) | - |
| Present value adjustment on promises to give | - | 2,668 |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable | (11,637) | 3,366 |
| Promises to give | (16,168) | (105,000) |
| Escrow Deposits | 432 | - |
| House construction in process | (195,995) | 46,448 |
| Prepaid expenses | (2,080) | 336 |
| Land held for development | - | 9,970 |
| Accounts payable | 11,618 | (20,530) |
| Accrued liabilities | 125 | (2,073) |
| Net Cash Flows from Operating Activities | 161,970 | (81,176) |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | - | (138,010) |
| Proceeds from sale of property | 5,500 | - |
| Payments on mortgages receivable | 47,378 | 46,490 |
| Net Cash Flows from Investing Activities | 52,878 | (91,520) |
| Cash Flows from Financing Activities: | | |
| Proceeds from notes payable | 226,490 | 77,400 |
| Payments on notes payable | (5,719) | (8,222) |
| Proceeds from line of credit | 16,000 | 63,000 |
| Payments on line of credit | (79,000) | - |
| Net Cash Flows from Financing Activities | 157,771 | 132,178 |
| Net Change In Cash | 372,619 | (40,518) |
| Cash: | | |
| Beginning of year | 96,244 | 136,762 |
| End of year | \$ 468,863 | \$ 96,244 |

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

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2021 AND 2020**

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, 2021 the Organization had deposits in excess of insured limits. At June 30, 2020 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, 2021 and 2020.

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, 2021 and 2020 were \$118,500 and \$102,332, respectively. All promises to give are expected to be collected within the next three years.

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 were \$0 at June 30, 2021 and 2020, respectively.

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, 2021 and 2020 was \$23,243 and \$19,809, 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 an additional \$200,000 available from a line of credit (as discussed in Note G).

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 using a rate determined annually by Habitat for Humanity International, Inc. Once the rate is determined, it is not revised for any market changes.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2021 and 2020.

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 \$268,665 and \$280,990 at June 30, 2021 and 2020, 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 without 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, 2021 and 2020 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, 2021 AND 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition

The Organization recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Accordingly, revenue is recognized when services are rendered in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for the goods or services. The Organization satisfies a performance obligation by transferring services to the customers which is satisfied over the performance period on a straight-line basis and at point in time. See Note J of the Notes to Financial Statements for information regarding the Organization's revenue recognition practices.

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 \$2,928 and \$5,744 for the years ended June 30, 2021 and 2020.

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.

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes – Continued

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, 2021 and 2020.

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

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

The Financial Accounting Standards Board has issued the following standards which will be effective in subsequent years and are expected to have an impact on the Organization:

Update 2016-02, Leases (Topic 842), effective for the fiscal year beginning after December 15, 2020. This standard was delayed until annual reporting periods beginning after December 15, 2021 with the issuance of Update 2020-05. 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 statements of financial position. In conjunction with implementing 2016-02, Organization 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 and 2018-11 Leases (Topic 842): Targeted Improvements, 2018-20 Leases (Topic 842): Narrow-Scope Improvements for Lessors and 2020-01 Leases (Topic 842): Codification Improvements.

Update 2020-07, Not-for-profit Entities (Topic 952): Presentation and Disclosures by Not-for-profit Entities for Contributed Nonfinancial Assets, effective for fiscal years beginning after June 15, 2021. This Update increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosures.

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.

HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE B – 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:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Financial assets, at year-end | \$ 1,046,496 | \$ 658,643 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Mortgage receivable | 431,217 | 443,154 |
| Funds designated by the board | 1,065 | 845 |
| Contractual or donor-imposed restrictions | | |
| Restricted by donor with time or purpose restrictions | <u>120,867</u> | <u>33,220</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 493,347</u> | <u>\$ 181,424</u> |

The board has designated \$1,065 and \$845 as a reserve fund as described in the net asset section of Note A for the years ended June 30, 2021 and June 30, 2020, respectively. Although the board does not intend to spend these amounts, they are available if deemed necessary.

NOTE C – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|------------------|------------------|
| Promises to give | \$ 118,500 | \$ 105,000 |
| Receivable in one year | 98,500 | 75,000 |
| Receivable in one to five years | <u>20,000</u> | <u>30,000</u> |
| Total promises to give | 118,500 | 105,000 |
| Less discount for present value | <u>-</u> | <u>2,668</u> |
| Promises to give, net | 118,500 | 102,332 |
| Less current portion | <u>98,500</u> | <u>75,000</u> |
| Long-term promises to give, net | <u>\$ 20,000</u> | <u>\$ 27,332</u> |

Unconditional promises to give are discounted at 0% and 1.66% at June 30, 2021 and 2020, respectively.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|-------------------|-------------------|
| Equipment | \$ 118,906 | \$ 133,264 |
| Building and improvements | 525,248 | 525,248 |
| Land | <u>66,800</u> | <u>66,800</u> |
| | 710,954 | 725,312 |
| Less accumulated depreciation | <u>204,480</u> | <u>195,595</u> |
| | <u>\$ 506,474</u> | <u>\$ 529,717</u> |

**HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE E – 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, 2021, the total cost of house construction in process and land held for development was \$197,965 and \$103,662, respectively. As of June 30, 2020, the total cost of house construction in process and land held for development was \$1,970 and \$103,662, respectively.

NOTE F – 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, 2021, the carrying value of the non-interest bearing mortgage loan receivables of \$900,130 is shown net of the total unamortized discount of \$456,508. At June 30, 2020, the carrying value of the non-interest bearing mortgage loan receivables of \$947,293 is shown net of the total unamortized discount of \$491,100.

Annual collection of mortgages receivables, net of the amortized discount, for the years subsequent to June 30, 2021 are due as follows:

| | |
|------------|-------------------|
| 2022 | \$ 12,406 |
| 2023 | 13,411 |
| 2024 | 14,497 |
| 2025 | 15,672 |
| 2026 | 16,941 |
| Thereafter | <u>370,695</u> |
| | <u>\$ 443,622</u> |

All mortgages receivable payments were current as of June 30, 2021.

NOTE G – LINE OF CREDIT

The Organization has a \$200,000 line of credit with a bank that expires November 2021. Under this agreement, interest is payable as of June 30, 2021 and 2020 at bank's prime rate plus 0.5% (4% and 4.75% as of June 30, 2021 and 2020, respectively), but no less than 4%. The line of credit is secured by all business assets of the Organization. The outstanding balances at June 30, 2021 and 2020 was \$0 and \$63,000, respectively.

HABITAT FOR HUMANITY LAKESIDE, INC.
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NOTE H – LONG-TERM DEBT

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

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Economic Injury Disaster Loan from the United States Small Business Administration under its Economic Injury Disaster Loan assistance program in light of the impact of the COVID-19 pandemic on the Organization's business with monthly payment of \$641 beginning in October 2021 including principal and interest at 2.75%. Final payment due in September 2050. | \$ 149,900 | \$ - |
| Paycheck Protection Program loan with a bank with monthly payment of \$4,356 beginning in November 2020 including principal and interest at 1%. Final payment due in April 2022. The Paycheck Protection Program allows for loan forgiveness if the Organization meets certain benchmarks during the initial 8-24 weeks of the loan. The loan was forgiven in full in December 2020. | - | 77,400 |
| Note payable to refinance a mortgage with a bank with monthly payment of \$1,509 including principal and interest at 3.25%. Final payment due in June 2025 secured by building. | <u>174,027</u> | <u>179,746</u> |
| | 323,927 | 257,146 |
| Less current maturities | <u>(6,819)</u> | <u>(46,493)</u> |
| | <u>\$ 317,108</u> | <u>\$ 210,653</u> |

Future maturities of long-term debt for years subsequent to June 30, 2021 are as follows:

| | |
|------------|-------------------|
| 2022 | \$ 6,819 |
| 2023 | 9,176 |
| 2024 | 10,948 |
| 2025 | 11,290 |
| 2026 | 9,875 |
| Thereafter | <u>275,819</u> |
| | <u>\$ 323,927</u> |

NOTE I – 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>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Subject to purpose restrictions | | |
| Foreclosure prevention | \$ 2,367 | \$ 3,220 |
| Subject to time restrictions | | |
| Promises to give | <u>118,500</u> | <u>105,000</u> |
| Total net assets with donor restrictions | <u>\$ 120,867</u> | <u>\$ 108,220</u> |

HABITAT FOR HUMANITY LAKESIDE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE I – NET ASSETS RESTRICTIONS/DESIGNATIONS – Continued

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

| | <u>2021</u> | <u>2020</u> |
|--------------|-------------|-------------|
| Reserve Fund | \$ 1,065 | \$ 845 |

NOTE J – REVENUE FROM CONTRACTS WITH CUSTOMERS

In accordance with Topic 606, the Organization accounts for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party's rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable that the Organization will collect substantially all of the consideration to which it is entitled. Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

The Organization generates revenue from the following primary activities:

- Transfers to homeowners – houses sold at no profit to families in need
- Resale store sales – sells at a fraction of the retail price preowned home improvement items
- Other – miscellaneous program income

Disaggregation of Revenue

The table below presents net sales disaggregated by timing of revenue recognition and segment for the years ended June 30:

| | <u>2021</u> | | | |
|---|--------------------------------|---------------------------|------------------|-------------------|
| <u>Segments</u> | <u>Transfers to homeowners</u> | <u>Resale store sales</u> | <u>Other</u> | <u>Total</u> |
| <u>Timing of revenue recognition</u> | | | | |
| Services transferred at a point in time | \$ 1,000 | \$ 151,051 | \$ 18,880 | \$ 170,931 |
| Services transferred over time | 34,807 | - | - | 34,807 |
| | <u>\$ 35,807</u> | <u>\$ 151,051</u> | <u>\$ 18,880</u> | <u>\$ 205,738</u> |
| | | | | |
| | <u>2020</u> | | | |
| <u>Segments</u> | <u>Transfers to homeowners</u> | <u>Resale store sales</u> | <u>Other</u> | <u>Total</u> |
| <u>Timing of revenue recognition</u> | | | | |
| Services transferred at a point in time | \$ 129,000 | \$ 39,391 | \$ 6,829 | \$ 175,220 |
| Services transferred over time | 34,825 | - | - | 34,825 |
| | <u>\$ 163,825</u> | <u>\$ 39,391</u> | <u>\$ 6,829</u> | <u>\$ 210,045</u> |

HABITAT FOR HUMANITY LAKESIDE, INC.
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NOTE J – REVENUE FROM CONTRACTS WITH CUSTOMERS – Continued

Opening and Closing Balance of Accounts and Mortgage Receivables

The following table provides information about accounts and mortgage receivables balances:

| | <u>At June 30, 2021</u> | <u>At June 30, 2020</u> |
|--|-----------------------------|-----------------------------|
| Accounts receivable | \$ 15,511 | \$ 3,874 |
| Mortgages receivable, net of discounts | 443,622 | 456,193 |

Practical Expedients

The Organization has elected to apply the following practical expedients when determining revenue from contracts with customers and capitalization of related costs:

- The Organization has elected to not adjust revenue for the effects of a significant finance component when the timing difference between receipt of payment and recognition of revenue is less than one year.
- The Organization has elected to expense incremental costs to obtain a contract when the amortization period of the related asset is expected to be less than one year.

NOTE K – RETIREMENT PLAN

The Organization offers a SIMPLE IRA plan. The plan covers all employees who are 18 years-old or older and who have received at least \$5,000 in compensation prior to the current year. The Organization will contribute a matching contribution to each eligible employee's account equal to the employee's salary deferral up to a limit of 3% of the employee's compensation for the year. Employees are immediately 100% vested. The Organization's contributions totaled \$5,890 and \$6,941 for the years ended June 30, 2021 and 2020, respectively.

NOTE L – RESALE STORES DIRECT EXPENSES

Resale stores direct expenses consist of the following for the years ended June 30:

| | <u>2021</u> | <u>2020</u> |
|--------------------------|-------------------|-------------------|
| Payroll expenses | \$ 134,131 | \$ 182,818 |
| Utilities | 11,178 | 10,824 |
| Repairs and maintenance | 5,481 | - |
| Insurance | 9,868 | 10,019 |
| Credit card fees | 8,058 | 5,948 |
| Volunteer expenses | - | 32 |
| Dumpster | 11,084 | 7,120 |
| Vehicle expense | 5,453 | 3,067 |
| Supplies | 5,557 | 3,462 |
| Telephone | 1,522 | 2,788 |
| Interest expense | 6,592 | 7,293 |
| Advertising and printing | 1,021 | 2,416 |
| Professional fees | 117 | 5,019 |
| Other | 564 | 4,230 |
| | <u>\$ 200,626</u> | <u>\$ 245,036</u> |

**HABITAT FOR HUMANITY LAKESIDE, INC.
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NOTE M – 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, 2021 and 2020, the Organization contributed \$5,500 and \$10,500 to HFHI, respectively.

NOTE N – SIGNIFICANT CONCENTRATIONS

Contributions from one donor accounted for approximately 35% of contribution revenue for the year ended June 30, 2021. Three donors accounted for approximately 62% of contribution revenue for the year ended June 30, 2020.

NOTE O – SUPPLEMENTARY CASH FLOW DISCLOSURES

The Organization received \$0 and \$12,000 of non-cash contributions during the years ended June 30, 2021 and 2020, respectively.

Cash paid for interest was \$7,101 and \$8,350 for the years ended June 30, 2021 and 2020, respectively.

In April 2020, the Organization obtained a Paycheck Protection Program loan in the amount of \$77,400. The loan was forgiven in full in December 2020.

In February 2021, the Organization obtained a second Paycheck Protection Program loan in the amount of \$76,590. The loan was forgiven in full in June 2021.

NOTE P – RISK AND UNCERTAINTIES

On March 11, 2020, the World Health Organization characterized a strain of coronavirus (COVID-19) as a pandemic. The Organization is in the process of implementing risk mitigation tactics for the Organization as to the risk of the impact, if any, of COVID-19 related to all aspects of the Organization's business transactions

NOTE Q – SUBSEQUENT EVENTS

In August 2021 mortgage with carrying value of \$138,621 was sold for \$138,621.

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 23, 2021, the date on which financial statements were available to be issued.