

HABITAT FOR HUMANITY OF OSHKOSH, INC.

**AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

TABLE OF CONTENTS

Page

Independent Auditor's Report	3
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Financial Statements

Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8-21



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Oshkosh, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Oshkosh, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 of Oshkosh, Inc. as of June 30, 2020 and 2019, 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
December 22, 2020

HABITAT FOR HUMANITY OF OSHKOSH, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets:			
Cash and cash equivalents		\$ 411,778	\$ 647,663
Current maturities of mortgages receivable		40,230	41,285
House construction in process		74,036	51,953
Inventory		4,947	8,855
Total Current Assets		<u>530,991</u>	<u>749,756</u>
Property and Equipment, net		1,480,683	914,058
Other Assets:			
Beneficial interest in assets held by Community Foundation		46,528	46,960
Mortgages receivable, less current maturities, net of discounts		590,494	626,629
Total Other Assets		<u>637,022</u>	<u>673,589</u>
Total Assets		<u><u>\$ 2,648,696</u></u>	<u><u>\$ 2,337,403</u></u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Current maturities of long-term debt		\$ 75,876	\$ 61,834
Accounts payable		7,861	9,106
Homeowner deposits		500	1,500
Sales tax payable		1,518	1,845
Accrued wages		8,073	8,896
Accrued payroll taxes		4,452	4,485
Accrued property taxes		4,907	-
Accrued interest		1,544	1,093
Total Current Liabilities		<u>104,731</u>	<u>88,759</u>
Long-term Debt, less current maturities, net of discount		<u>1,059,370</u>	<u>603,053</u>
Total Liabilities		1,164,101	691,812
Net Assets:			
Without donor restrictions:			
Board designated		77,004	13,570
Undesignated		1,345,863	1,521,793
Total without donor restrictions		<u>1,422,867</u>	<u>1,535,363</u>
With donor restrictions		61,728	110,228
Total Net Assets		<u>1,484,595</u>	<u>1,645,591</u>
Total Liabilities and Net Assets		<u><u>\$ 2,648,696</u></u>	<u><u>\$ 2,337,403</u></u>

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

HABITAT FOR HUMANITY OF OSHKOSH, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:						
Support:						
Contributions - cash	\$ 48,954	\$ 60,500	\$ 109,454	\$ 105,696	\$ 185,400	\$ 291,096
Grants	82,000	-	82,000	36,500	-	36,500
Net assets released from restrictions	109,000	(109,000)	-	80,407	(80,407)	-
Total Support	239,954	(48,500)	191,454	222,603	104,993	327,596
Revenues:						
Transfers to homeowners	84,600	-	84,600	91,068	-	91,068
Mortgage discount amortization	82,972	-	82,972	129,048	-	129,048
Resale store sales (less direct expenses of \$27,814 and \$48,426, respectively)	350,800	-	350,800	385,363	-	385,363
Fundraising proceeds	30,472	-	30,472	645	-	645
Interest income	627	-	627	598	-	598
Return on beneficial interest	(1,532)	-	(1,532)	753	-	753
Late fees	274	-	274	445	-	445
Second mortgage income	-	-	-	8,295	-	8,295
Miscellaneous	6,671	-	6,671	9,534	-	9,534
Total Revenues	554,884	-	554,884	625,749	-	625,749
Total Revenues and Other Support	794,838	(48,500)	746,338	848,352	104,993	953,345
Expenses:						
Program services	793,979	-	793,979	710,005	-	710,005
Management and general	67,706	-	67,706	60,724	-	60,724
Fundraising	45,649	-	45,649	41,038	-	41,038
Total Expenses	907,334	-	907,334	811,767	-	811,767
Change in Net Assets	(112,496)	(48,500)	(160,996)	36,585	104,993	141,578
Net Assets:						
Beginning of year	1,535,363	110,228	1,645,591	1,498,778	5,235	1,504,013
End of year	\$ 1,422,867	\$ 61,728	\$ 1,484,595	\$ 1,535,363	\$ 110,228	\$ 1,645,591

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

HABITAT FOR HUMANITY OF OSHKOSH, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Cost of construction	\$ 119,454	\$ -	\$ -	\$ 119,454	\$ 94,102	\$ -	\$ -	\$ 94,102
Mortgage discount expense	50,543	-	-	50,543	55,449	-	-	55,449
Family selection expense	1,008	-	-	1,008	387	-	-	387
Welcome home package	2,555	-	-	2,555	1,971	-	-	1,971
Tithe to HFHI	-	-	-	-	6,392	-	-	6,392
Payroll expenses	304,644	51,027	22,720	378,391	278,175	46,799	27,074	352,048
Insurance	36,387	371	371	37,129	31,501	321	321	32,143
Telephone	5,525	508	318	6,351	3,836	353	221	4,410
IT maintenance	1,414	326	435	2,175	1,478	341	455	2,274
Building	-	2,858	-	2,858	-	-	-	-
Office and operating supplies	7,026	1,622	2,162	10,810	3,557	821	1,095	5,473
Postage and printing	4,929	1,849	5,546	12,324	2,071	777	2,330	5,178
Advertising	4,403	-	4,403	8,806	4,186	-	4,186	8,372
Dues and subscriptions	752	1,805	451	3,008	686	1,647	412	2,745
Legal and accounting	6,823	2,275	2,275	11,373	7,806	2,602	2,602	13,010
Rent	7,062	223	149	7,434	3,951	125	83	4,159
Outside services	200	-	-	200	200	-	-	200
Facilities	21,890	691	461	23,042	18,275	577	385	19,237
Utilities	19,489	615	410	20,514	19,586	619	412	20,617
Vehicle	20,419	-	-	20,419	11,625	-	-	11,625
Bank and credit card fees	6,387	351	281	7,019	6,825	375	300	7,500
Volunteer appreciation	1,829	-	-	1,829	506	-	-	506
Warranty work	13	-	-	13	3,749	-	-	3,749
Other ReStore expenses	5,342	-	-	5,342	3,057	-	-	3,057
Miscellaneous	5,068	-	-	5,068	5,047	-	-	5,047
Training	-	1,096	-	1,096	-	3,624	-	3,624
Closing costs	3,370	-	-	3,370	1,430	-	-	1,430
Interest	29,052	917	612	30,581	22,693	717	478	23,888
Restore expenses	27,814	-	-	27,814	48,426	-	-	48,426
Rock the Block event	85,724	-	-	85,724	80,407	-	-	80,407
Fundraising expenses	-	-	4,274	4,274	-	-	-	-
Depreciation	37,101	1,172	781	39,054	32,503	1,026	684	34,213
Amortization	5,570	-	-	5,570	8,554	-	-	8,554
	<u>821,793</u>	<u>67,706</u>	<u>45,649</u>	<u>935,148</u>	<u>758,431</u>	<u>60,724</u>	<u>41,038</u>	<u>860,193</u>
Less: resale store expenses netted against revenue	<u>27,814</u>	<u>-</u>	<u>-</u>	<u>27,814</u>	<u>48,426</u>	<u>-</u>	<u>-</u>	<u>48,426</u>
Total Expenses	<u>\$ 793,979</u>	<u>\$ 67,706</u>	<u>\$ 45,649</u>	<u>\$ 907,334</u>	<u>\$ 710,005</u>	<u>\$ 60,724</u>	<u>\$ 41,038</u>	<u>\$ 811,767</u>

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

HABITAT FOR HUMANITY OF OSHKOSH, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities:		
Change in net assets	\$ (160,996)	\$ 141,578
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Discounts on mortgages issued	50,543	55,449
Mortgage discount amortization	(82,972)	(129,048)
Transfers to homeowners	(84,600)	(91,068)
Amortization	5,570	8,554
Depreciation	39,054	34,213
Return on beneficial interest	1,532	(753)
Effects of changes in operating assets and liabilities:		
House construction in process	(22,083)	(16,937)
Inventory	3,908	19,489
Accounts payable	(1,245)	3,401
Homeowner deposits	(1,000)	500
Sales tax payable	(327)	(232)
Accrued wages	(823)	1,892
Accrued payroll taxes	(33)	215
Accrued property taxes	4,907	-
Accrued interest	451	301
Net Cash Flows from Operating Activities	<u>(248,114)</u>	<u>27,554</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(165,679)	(4,150)
Acquisition of beneficial interests	(1,100)	(1,225)
Payments received on mortgages receivable	154,219	253,336
Net Cash Flows from Investing Activities	<u>(12,560)</u>	<u>247,961</u>
Cash Flows From Financing Activities:		
Proceeds from long-term debt	88,374	43,400
Payments on long-term debt	(63,585)	(58,139)
Net Cash Flows from Financing Activities	<u>24,789</u>	<u>(14,739)</u>
Net Change In Cash and Cash Equivalents	(235,885)	260,776
Cash and Cash Equivalents:		
Beginning of year	647,663	386,887
End of year	<u><u>\$ 411,778</u></u>	<u><u>\$ 647,663</u></u>

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

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity of Oshkosh, Inc., (the "Organization") is a non-profit organization located in Oshkosh, Wisconsin 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 of Oshkosh, Inc. area (City of Oshkosh) and include acquisition of real estate to be improved, purchase of building materials, organization of construction/rehabilitation labor (volunteer and paid) and financing the sale of its completed projects. The Organization targets those in very low income economic groups, selling homes at no profit and financing them with non-interest bearing loans.

The Organization is supported primarily through contributions, grants, income from the resale store, and homeowner mortgage payments.

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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with a maturity of three months or less to be cash equivalents.

ReStore Inventory

The store's merchandise consists primarily of items that have been donated by building supply stores, construction companies, and individuals in the community. Because many of the donations are the result of overstocked items or are used items, the value of donations is not readily determinable until such merchandise is sold. Therefore, retail inventory from donated items of the store has not been recorded in these financial statements. Retail sales on these donated items are recorded at the point of sale. The remaining inventory which consists of purchased items is stated at the lower of cost or market determined by the first-in first-out method.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Expenditures for replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. The Organization's capitalization policy is to depreciate all assets with an economic life greater than twelve months 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 twenty years for building improvements, equipment, furniture and vehicles and forty years for the building. Depreciation charged to operations for the years ended June 30, 2020 and 2019 was \$39,054 and \$34,213, respectively.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

The Organization aims to sell homes at no profit by setting the home sale price at the estimated cost to build. The Organization holds a second mortgage for each first mortgage if the fair market value at the time of sale was greater than the sale price of the home. The second mortgage represents the difference between the fair value of the home at the time of the original sale and the actual sale price. These second mortgages are not recorded. The second mortgage would take effect if the homeowner sells, refinances, defaults or the home is no longer their primary residence before a stipulated time period. 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 \$118,568 and \$201,650 at June 30, 2020 and 2019, respectively.

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, 2020 and 2019.

Fair Value Measurements

Fair value is defined as the exchange price (an exit price) that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Liquidity and Availability of Resources

The Finance Committee is responsible for the development and management of the Organization's liquidity policy. This includes but is not limited to:

Monitoring available funding to pay all expenses in a timely manner. This includes operational funding as well as funding for capital expenditures, emergency situations and opportunities for growth and expansion.

Developing and maintaining board designated reserve accounts which can all be used to meet operational needs through a simple board resolution.

The Organization receives significant contributions each year from donors. These contributions allow the Organization to meet annual cash needs for general expenditures. The Organization strives to maintain liquid financial assets sufficient to cover at least 180 days of general expenditures. The Organization will maintain a checking account with a balance generally sufficient to pay between 30 and 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in short-term investments. These funds are primarily invested in two ways:

Money market accounts that allow fund transfers to (or from) the checking account to support the Organization financial management.

Certificate of Deposit Account Registry Service (CDARS) with maturity dates no more than two years into the future. CDARS will be laddered so that cash will become available at least every six months. To further ensure liquidity, principal amounts that are invested in each CDARS can be returned to the Organization before the maturity date to meet unexpected expenses. The penalty for early withdrawal is limited to the loss of a percentage of the projected interest that would have been earned at the maturity date.

The Organization has an endowment fund entitled the "The Habitat for Humanity of Oshkosh Fund" that is held and managed by the Oshkosh Area Community Foundation. Income generated from this endowment is available in the fall of each year based on the Foundation's spending policy. The Organization has the opportunity to take the distribution or keep those dollars and add them to the endowment principal.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Liquidity and Availability of Resources – continued

Once the endowment reaches \$1 million in principal, the principal must not fall below that level. (If this does happen, interest distributions will be discontinued until the principal balance returns to the \$1 million level.)

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. Volunteers provided services to the Organization throughout the year that have not been recognized as contributions in the financial statements since the recognition criteria were not met.

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.

Presentation of Sales Tax

Revenues are recorded net of all amounts charged to customers for sales taxes.

Advertising

Advertising costs are charged to operations when incurred. During the years ended June 30, 2020 and 2019, advertising costs totaled \$8,806 and \$8,372, respectively.

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, management and general, 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.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

As a not-for-profit organization, Habitat for Humanity of Oshkosh, Inc., is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The tax-exempt status is based on the stated purpose of the operations and supporting evidence presented to the Internal Revenue Service with the application for tax-exempt status. Such status is subject to re-evaluation should there be any changes in operation, character, or purpose of the Organization.

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 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, 2020 and 2019.

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

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Accounting Standards Update

During the year ended June 30, 2020, the Organization implemented the following statements of financial accounting standards issued by the Financial Accounting Standards Board:

Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, effective for the fiscal year beginning after December 15, 2018. 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 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 beginning after December 15, 2018. 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.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Accounting Standards Update – continued

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 beginning after December 15, 2018. This standard was delayed until annual reporting periods beginning after December 15, 2019 with the issuance of Update 2020-05 Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). This Update results in changes to the timing of when a 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*.

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 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* and 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*.

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 OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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>2020</u>	<u>2019</u>
Financial assets, at year-end	\$ 1,089,030	\$ 1,362,537
Less those unavailable for general expenditures within one year, due to:		
Mortgage receivable	590,494	626,629
Funds designated by the board	77,004	13,750
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	<u>61,728</u>	<u>110,228</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 359,804</u>	<u>\$ 611,930</u>

The Board has designated \$13,570 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 C – BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

Beneficial interest in assets held by community foundation represents amounts held at the Oshkosh Area Community Foundation. The Foundation invests the assets held in the fund. The income and principal may be distributed upon request of the members of the governing body of the Organization, net income, after deducting investing and administration expenses, may be distributed to the Organization according to the spending policy of the Foundation. Upon request of two-thirds (2/3) of the members of the governing body of the Organization, Oshkosh Area Community Foundation Board may authorize, under unusual circumstances, principal distributions.

The agreement governing the assets includes a variance power allowing the Foundation to modify the restrictions on distributions from the funds.

	<u>2020</u>	<u>2019</u>
Total beneficial interests in assets held by Community Foundation	<u>\$ 46,528</u>	<u>\$ 46,960</u>

Return on beneficial interest consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Realized and unrealized gains (losses)	\$ (2,144)	\$ 291
Investment income	1,062	893
Investment fees	<u>(450)</u>	<u>(431)</u>
Net return on beneficial interest	<u>\$ (1,532)</u>	<u>\$ 753</u>

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2020	2019
Equipment and furniture	\$ 33,234	\$ 24,273
Vehicles	44,875	44,875
Affiliate building	508,000	-
ReStore building	713,940	713,940
ReStore building improvements	84,645	41,307
ReStore equipment	58,946	55,566
Affiliate land	42,000	-
ReStore land	270,000	270,000
	<u>1,755,640</u>	<u>1,149,961</u>
Less accumulated depreciation	(274,957)	(235,903)
	<u><u>\$ 1,480,683</u></u>	<u><u>\$ 914,058</u></u>

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, 2020 and 2019, the total cost of house construction in process was \$74,036 and \$51,953, 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, 2020, the carrying value of the non-interest bearing mortgage loan receivables of \$630,724 is shown net of the total unamortized discount of \$799,705. At June 30, 2019, the carrying value of the non-interest bearing mortgage loan receivables of \$667,914 is shown net of the total unamortized discount of \$832,133.

Annual collection of mortgages receivables, net of the amortized discount, at June 30, 2020 are due as follows:

2021	\$ 40,230
2022	39,372
2023	37,589
2024	36,054
2025	34,884
Thereafter	442,595
	<u><u>\$ 630,724</u></u>

Not all mortgages receivable were current on payments as of June 30, 2020.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE G – NET ASSETS

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Subject to purpose restrictions:		
Rock the Block program	\$ 41,769	\$ 104,993
Neighborhood Revitalization Initiative	5,235	5,235
Future Builds Account	14,724	-
	<u>\$ 61,728</u>	<u>\$ 110,228</u>

Board designated net assets consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Neighborhood Revitalization Initiative	\$ 13,570	\$ 13,570
Fund for Restore capital improvement	63,434	-
	<u>\$ 77,004</u>	<u>\$ 13,570</u>

NOTE H – LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
Mortgage payable with monthly installments of \$5,708 including interest at 4.20%. Mortgage payable was refinanced in May 2018 with monthly installments of \$6,213 including interest at 4.89%. Final payment due in May 2025.	\$ 487,300	\$ 536,299
Note payable secured by mortgage receivable pledged as collateral with monthly installment of \$324 with no interest. The note was discounted at an imputed interest rate of 4.2%. The total discount was \$28,761. The discount is being amortized over 22 years. Amortization for the years ended June 30, 2020 and 2019 was \$1,854 and \$1,938, respectively. Final payment due in July 2035.	57,127	61,015
Note payable secured by mortgage receivable pledged as collateral with monthly installment of \$342 with no interest. The note was discounted at an imputed interest rate of 4.2%. The total discount was \$18,976. The discount is being amortized over sixteen years. Amortization for the years ended June 30, 2020 and 2019 was \$1,410 and \$1,521, respectively. Final payment due in December 2029.	38,888	42,992

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE H – LONG-TERM DEBT – Continued

	<u>2020</u>	<u>2019</u>
Note payable unsecured, full recourse obligation with monthly installments of \$203 with no interest. Final payment due in December 2019.	\$ -	\$ 1,232
Note payable secured by mortgage receivable pledged as collateral with monthly installment of \$253 with no interest. The note was discounted at an imputed interest rate of 4.89%. The total discount was \$47,668. The discount is being amortized over thirty years. Amortization for the years ended June 30, 2020 and 2019 was \$2,306 and \$5,096, respectively. Final payment due in February 2049.	87,020	90,056
Note payable secured by real estate pledged as collateral with monthly installment of \$2,300 at 3.85% interest. Final payment due in March 2025.	437,421	-
Paycheck Protection Program loan with a bank with principal due in April 2022 at an interest rate of 1%. The Paycheck Protection Program allows for loan forgiveness if the Organization meets certain benchmarks during the initial 8-24 weeks of the loan. The amount of forgiveness is unknown as of the date of which the financial statements were available to be issued.	78,374	-
Note payable with monthly installment of \$286 at 2.00% interest. Final payment due in November 2023. Secondary lien position behind primary lending bank including but not limited to: all machinery and equipment, inventory, accounts receivable and general intangibles.	10,000	-
	<u>1,196,130</u>	<u>731,594</u>
Less current maturities	75,876	61,834
Less discount on non-interest bearing long-term debt	60,884	66,707
	<u>\$ 1,059,370</u>	<u>\$ 603,053</u>
Future maturities of long-term debt are as follows:		
2021		\$ 75,876
2022		158,506
2023		83,376
2024		84,521
2025		665,956
Thereafter		127,895
		<u>\$ 1,196,130</u>

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE H – LONG-TERM DEBT – Continued

Amortization expense related to the discount on non-interest bearing long-term debt was \$5,570 and \$8,554 as of June 30, 2020 and 2019, respectively.

NOTE I – 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, 2020 and 2019, the Organization contributed \$0 and \$6,392 to HFHI, respectively.

NOTE J – LEASES

The Organization leases a storage facility on a month-to-month lease.

The Organization is also a party to a license agreement for a sign with annual payments of \$1,000 which expired in September 2017, with automatic one year renewals.

The Organization leases equipment that requires 60 monthly principal and interest payments of \$71. The lease ends in May 2025. The following schedule by years of future minimum lease payments under the lease at June 30:

2021	\$	852
2022		852
2023		852
2024		852
2025		781
	\$	<u>4,189</u>

Total rent expense for these agreements amounted to \$7,434 and \$4,159 for the years ended June 30, 2020 and 2019, respectively.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE K – RESTORE DIRECT EXPENSES

ReStore direct expenses for the years ended June 30, consist of the following:

	2020	2019
Rent	\$ 5,484	\$ 3,379
Insurance	16,372	16,655
Telephone	5,471	4,410
Office expense	9,136	3,711
Advertising	8,806	7,472
Professional fees	5,144	8,785
Depreciation	32,329	30,923
Payroll expenses	168,146	161,780
Facilities	15,307	18,211
Utilities	19,492	20,617
Vehicle	17,703	9,399
Seminar	689	1,217
Cost of goods sold	27,814	48,426
Other	16,523	10,761
Interest	25,126	28,156
	<u><u>\$ 373,542</u></u>	<u><u>\$ 373,902</u></u>

NOTE L – FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value.

Beneficial interest in assets held by community foundation is valued by the respective community foundation as a pro-rata share of the investment pool held by the foundation.

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

The following table sets forth by level, within the fair value hierarchy, the Organization's beneficial interest in assets held at the Oshkosh Area Community Foundation at fair value as of June 30:

		2020			
		Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,528</u>	<u>\$ 46,528</u>
		2019			
		Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,960</u>	<u>\$ 46,960</u>

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE L – FAIR VALUE MEASUREMENTS – Continued

There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2020 and 2019.

Information regarding the changes in the fair value of the Organization's Level 3 investments for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Level 3 Investments:		
Beginning of year	\$ 46,960	\$ 44,982
Realized gains	357	684
Unrealized losses	(2,501)	(393)
Purchases, sales, issuances and settlements, net	1,712	1,687
End of year	<u>\$ 46,528</u>	<u>\$ 46,960</u>

The Oshkosh Area Community Foundation report further explains the fair value measurements and may be obtained from the Foundation.

NOTE M – SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest was \$30,130 and \$23,587 for the years ended June 30, 2020 and 2019, respectively.

During the year ended June 30, 2020, the Organization used debt to purchase a building and land in the amount of \$440,000.

During the year ended June 30, 2019, the Organization received an interest-free loan noting a discount in the amount of \$47,668.

NOTE N – SIGNIFICANT CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. The Organization received 63% and 21% of its support from four and two contributors for the years ended June 30, 2020 and 2019, respectively.

NOTE O – SERVICE CONTRACT

In May 2020, the Organization entered into a service agreement for technology services for \$1,020 per month. The agreement ends in April 2021, but automatically renews for one or more additional terms of one year unless either party has intent to terminate.

NOTE P – RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization characterized a strain of coronavirus (COVID-19) as a pandemic. In addition, Wisconsin has been declared a state of emergency. The Organization believes it understands the risks associated with COVID-19. 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 with customers and vendors and human interaction within and outside of the Organization.

HABITAT FOR HUMANITY OF OSHKOSH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE Q – SUBSEQUENT EVENTS

On July 6, 2020, the Organization received \$100,000 donation for Basic Needs Giving Partnership grant. This grant is part of a 3-year grant. Due to the pandemic, normal grant payment procedures were not followed by the grantor; therefore, payment was received after year-end with no advance notice of when it was coming. In previous years, this revenue had been booked prior to year-end as cash was received.

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through December 22, 2020, the date on which the financial statements were available to be issued.