

# Habitat for Humanity of Dane County, Inc.

Financial Report

June 30, 2020

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Habitat for Humanity of Dane County, Inc.  
Madison, Wisconsin

We have audited the accompanying financial statements of Habitat for Humanity of Dane County, Inc., 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 audits 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 Dane County, Inc. as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note A to the financial statements, in 2020, the entity adopted new accounting standards. Our opinion is not modified with respect to this matter.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of revenue and expenses by funding source (shown on page 31) is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of City of Madison Community Development Division funds expended by program (shown on page 32) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*SVA Certified Public Accountants, S.C.*

Madison, Wisconsin

October 23, 2020

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
General balance	\$ 967,668	\$ 670,884
Escrow deposits	451,800	432,775
Cash and cash equivalents	1,419,468	1,103,659
Unconditional promises to give	52,652	142,986
Accounts receivable	141,461	113,250
Inventories	192,539	177,080
Prepaid expenses	23,121	17,296
Homes in progress	1,347,860	1,638,007
Mortgage notes receivable	942,150	894,623
Total current assets	4,119,251	4,086,901
<b>LONG-TERM ASSETS</b>		
New markets tax credit - investment	1,200,000	1,200,000
Property and equipment, net	2,141,808	2,216,314
New markets tax credit - other asset/guaranty fee	61,379	74,078
New markets tax credit - restricted cash	109,926	131,193
Unconditional promises to give	113,539	119,889
Mortgages receivable	3,533,896	3,441,026
Land (developed and undeveloped)	1,614,862	1,811,958
Beneficial interest in assets held by MCF	555,540	570,994
Total long-term assets	9,330,950	9,565,452
<b>TOTAL ASSETS</b>	<b>\$ 13,450,201</b>	<b>\$ 13,652,353</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 263,564	\$ 299,387
Escrow deposits	441,877	429,175
Deferred revenue, new markets tax credit	66,233	75,297
Deferred revenue, Community Development Financial Institution grant	0	226,706
Accrued expenses	203,337	178,905
Current portion of notes payable	148,917	123,547
Total current liabilities	1,123,928	1,333,017
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net	2,936,776	2,529,654
<b>TOTAL LIABILITIES</b>	4,060,704	3,862,671
<b>NET ASSETS</b>		
Net assets without donor restrictions	8,765,688	9,058,966
Net assets with donor restrictions:		
Net assets with donor restrictions - time or use	286,966	407,373
Net assets with donor restrictions - perpetual endowment	336,843	323,343
Total net assets with donor restrictions	623,809	730,716
Total net assets	9,389,497	9,789,682
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,450,201</b>	<b>\$ 13,652,353</b>

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

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

STATEMENTS OF ACTIVITIES  
Years ended June 30, 2020 and 2019

	2020	2019
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Public support, revenue and gains:		
Homebuilding:		
Revenue on sale of completed homes and lots	\$ 2,775,626	\$ 2,079,870
Mortgage discount amortization	324,819	371,604
Gain on sale of mortgages receivable	356,920	226,402
Gifts and donations	7,400	31,001
In-kind contributions	374,645	453,143
Program services	337,088	255,342
Total homebuilding	4,176,498	3,417,362
ReStore:		
ReStore sales less cost of goods sold of \$1,621,008 and \$1,821,380	92,677	68,263
Gifts and donations	1,054	1,200
In-kind contributions	1,523,013	1,748,287
Total ReStore	1,616,744	1,817,750
Contributions & other public support:		
Gifts and donations	975,570	787,005
Special events	86,761	104,313
Total contributions & other public support	1,062,331	891,318
Other income:		
Agency endowment return	(1,798)	6,982
Interest	26,566	16,361
Gain (loss) on sale of property and equipment	(4,206)	333
Miscellaneous income	25,326	38,501
Total other income	45,888	62,177
Total public support, revenue and gains	6,901,461	6,188,607
Expenses:		
Program services:		
Homebuilding	5,327,911	4,202,968
ReStore	1,285,015	1,185,933
Total program services	6,612,926	5,388,901
Supporting services:		
Management and general	227,033	243,990
Fundraising	501,681	609,782
Total supporting services	728,714	853,772
Total expenses	7,341,640	6,242,673
Net assets released from restrictions	146,901	211,235
Change in net assets without donor restrictions	(293,278)	157,169

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

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## STATEMENTS OF ACTIVITIES (Continued)

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS - TIME OR USE</b>		
Contributions	\$ 35,750	\$ 86,749
Net assets released from restrictions	(146,901)	(211,235)
Write-off of unconditional promises to give	(1,100)	(56,961)
Agency endowment return	<u>(8,156)</u>	<u>30,753</u>
Change in net assets with donor restrictions - time or use	(120,407)	(150,694)
<b>NET ASSETS WITH DONOR RESTRICTIONS - PERPETUAL ENDOWMENT</b>		
Contributions	<u>13,500</u>	<u>13,500</u>
Change in net assets	(400,185)	19,975
Net assets, beginning	<u>9,789,682</u>	<u>9,769,707</u>
Net assets, ending	<u><u>\$ 9,389,497</u></u>	<u><u>\$ 9,789,682</u></u>

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

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2020

	Program services			Supporting services			Total expenses
	Homebuilding	ReStore	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Cost of sales	\$ 3,212,662	\$ 0	\$ 3,212,662	\$ 0	\$ 0	\$ 0	\$ 3,212,662
Mortgage discount expense	947,629	0	947,629	0	0	0	947,629
Personnel	833,358	718,471	1,551,829	132,432	293,172	425,604	1,977,433
Occupancy	96,018	267,014	363,032	6,322	15,783	22,105	385,137
Tools, equipment, and technology	63,081	76,208	139,289	3,864	31,761	35,625	174,914
Depreciation	7,499	59,715	67,214	32,704	0	32,704	99,918
Office expenses	11,698	19,818	31,516	1,873	6,530	8,403	39,919
Publicity	1,315	79,272	80,587	0	128,854	128,854	209,441
Cost of goods sold	0	1,621,008	1,621,008	0	0	0	1,621,008
Tithe to Habitat for Humanity International, Inc.	12,900	0	12,900	0	0	0	12,900
Professional services	10,209	8,800	19,009	35,087	1,904	36,991	56,000
Volunteer and family	10,647	10,022	20,669	0	0	0	20,669
Travel	9,990	3,161	13,151	8,664	2,377	11,041	24,192
El Salvador trip expenses	22,300	0	22,300	0	0	0	22,300
Miscellaneous	35,576	42,534	78,110	6,087	21,300	27,387	105,497
Interest	53,029	0	53,029	0	0	0	53,029
<b>Total expenses</b>	<b>5,327,911</b>	<b>2,906,023</b>	<b>8,233,934</b>	<b>227,033</b>	<b>501,681</b>	<b>728,714</b>	<b>8,962,648</b>
Less expenses included with revenues on the statements of activities							
Cost of goods sold	0	(1,621,008)	(1,621,008)	0	0	0	(1,621,008)
<b>Total expenses included in the expense section of the statements of activities</b>	<b>\$ 5,327,911</b>	<b>\$ 1,285,015</b>	<b>\$ 6,612,926</b>	<b>\$ 227,033</b>	<b>\$ 501,681</b>	<b>\$ 728,714</b>	<b>\$ 7,341,640</b>



**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2019

	Program services			Supporting services			Total expenses
	Homebuilding	ReStore	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Cost of sales	\$ 2,246,561	\$ 0	\$ 2,246,561	\$ 0	\$ 0	\$ 0	\$ 2,246,561
Mortgage discount expense	765,345	0	765,345	0	0	0	765,345
Personnel	837,104	637,735	1,474,839	162,629	354,254	516,883	1,991,722
Occupancy	102,600	266,567	369,167	7,306	18,578	25,884	395,051
Tools, equipment, and technology	50,363	68,673	119,036	3,089	36,783	39,872	158,908
Depreciation	5,467	70,363	75,830	33,726	0	33,726	109,556
Office expenses	11,031	19,715	30,746	1,675	7,019	8,694	39,440
Publicity	1,697	60,017	61,714	0	156,227	156,227	217,941
Cost of goods sold	0	1,821,380	1,821,380	0	0	0	1,821,380
Tithe to Habitat for Humanity International, Inc.	30,400	0	30,400	0	0	0	30,400
Professional services	13,382	7,919	21,301	18,066	2,146	20,212	41,513
Volunteer and family	18,152	11,374	29,526	0	0	0	29,526
Travel	9,581	1,748	11,329	9,452	3,327	12,779	24,108
El Salvador trip expenses	15,915	0	15,915	0	0	0	15,915
Miscellaneous	36,431	41,822	78,253	8,047	31,448	39,495	117,748
Interest	58,939	0	58,939	0	0	0	58,939
<b>Total expenses</b>	<b>4,202,968</b>	<b>3,007,313</b>	<b>7,210,281</b>	<b>243,990</b>	<b>609,782</b>	<b>853,772</b>	<b>8,064,053</b>
Less expenses included with revenues on the statements of activities							
Cost of goods sold	0	(1,821,380)	(1,821,380)	0	0	0	(1,821,380)
<b>Total expenses included in the expense section of the statements of activities</b>	<b>\$ 4,202,968</b>	<b>\$ 1,185,933</b>	<b>\$ 5,388,901</b>	<b>\$ 243,990</b>	<b>\$ 609,782</b>	<b>\$ 853,772</b>	<b>\$ 6,242,673</b>

## HABITAT FOR HUMANITY OF DANE COUNTY, INC.

STATEMENTS OF CASH FLOWS  
Years ended June 30, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (400,185)	\$ 19,975
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Write-off of unconditional promises to give	1,100	56,961
Depreciation	99,918	109,556
Amortization of debt issuance costs	3,737	3,706
Agency endowment return	9,954	(37,735)
Contributions restricted for permanent endowment	(13,500)	(13,500)
Amortization of discount on mortgages receivable	(324,819)	(371,604)
Discount on mortgages receivable	947,629	765,345
Gain on sale of mortgages receivable	(356,920)	(226,402)
Loss (gain) on sale of property and equipment	4,206	(333)
Increase (decrease) in cash due to changes in:		
Unconditional promises to give	95,584	197,091
Accounts receivable	(28,211)	(12,241)
Inventories	(15,459)	(17,243)
Prepaid expenses	(5,825)	(401)
Homes in progress	(1,186,399)	(1,987,109)
Land (developed and undeveloped)	(63,597)	252,626
New markets tax credit - other asset/guaranty fee	12,699	12,699
Accounts payable	(35,823)	83,270
Escrow deposits	12,702	21,762
Accrued expenses	24,432	3,790
Deferred revenue	(235,770)	(242,506)
Net cash used in operating activities	(1,454,547)	(1,382,293)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(30,318)	(17,157)
Proceeds from sale of property and equipment	700	333
Proceeds from sale of mortgages receivable	855,071	519,178
Collections on mortgages receivable	475,881	734,234
Purchase of beneficial interest in assets held by MCF	(13,500)	(13,500)
Proceeds from beneficial interest in assets held by MCF	19,000	19,000
Net cash provided by investing activities	1,306,834	1,242,088
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for permanent endowment	13,500	13,500
Proceeds from notes payable	529,400	0
Principal payments on notes payable	(100,645)	(121,419)
Refund of debt issuance costs	0	5,328
Net cash provided by (used in) financing activities	442,255	(102,591)
Change in cash, cash equivalents, and restricted cash	294,542	(242,796)
Cash, cash equivalents, and restricted cash:		
Beginning	1,234,852	1,477,648
Ending	\$ 1,529,394	\$ 1,234,852
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 1,419,468	\$ 1,103,659
Restricted cash	109,926	131,193
Total cash, cash equivalents, and restricted cash	\$ 1,529,394	\$ 1,234,852

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

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## STATEMENTS OF CASH FLOWS (Continued)

Years ended June 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 49,292</u>	<u>\$ 55,233</u>
<b>SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
New mortgages issued	<u>\$ 1,737,239</u>	<u>\$ 1,410,790</u>
Transfer to completed homes from homes in progress	<u>\$ 1,737,239</u>	<u>\$ 1,410,790</u>
Transfer to homes in progress from land for development	<u>\$ 260,693</u>	<u>\$ 0</u>

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

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### **NOTE A -- Nature of business and significant accounting policies**

#### **Nature of business**

Habitat for Humanity of Dane County, Inc. (the organization), a nonprofit corporation organized in 1987, is a local affiliate of Habitat for Humanity International, Inc. organized for religious, charitable, and educational purposes and works with economically disadvantaged people to help them create a better human habitat in which to live and work. The organization operates under a covenant agreement with Habitat for Humanity International, Inc.

The organization builds and remodels homes that are sold at favorable terms to qualified families. The main recipients of these programs live in Dane County, Wisconsin.

The organization's primary sources of revenue are from sales of completed homes, gifts and donations, and sales from the Habitat for Humanity ReStore (the Restore). The ReStore sells low-cost materials to home remodelers and do-it-yourselfers while preventing usable materials from ending up in landfills. The profits from the ReStore are used to fund the construction of homes.

A summary of significant accounting policies follows:

#### **Basis of accounting**

The financial statements of the organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

#### **Basis of presentation**

Under accounting principles generally accepted in the United States of America (U.S. GAAP), the organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions have been limited by donor-imposed time or purpose restrictions or are required to be maintained in perpetuity. Included in net assets without donor restrictions are voluntary board approved designations for specific purposes, projects, or investments.

#### **Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Exempt status**

The organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) as a public charity and not a private foundation. The organization is also exempt from Wisconsin income tax.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### **NOTE A -- Nature of business and significant accounting policies (Continued)**

#### **Cash and cash equivalents**

For purposes of reporting cash flows, the organization considers all investments purchased with a maturity of three months or less to be cash equivalents.

The organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### **Promises to give**

Unconditional promises to give are recognized as support 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 those that contain a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend on have been met.

#### **Accounts receivable**

The organization considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made. Accounts receivable bear no interest. A receivable is considered past due if payments have not been received by the organization after 30 days.

#### **Inventories**

Inventories consist of construction materials that were donated or purchased by the organization. Inventories are valued at the estimated selling price of the donation in the period received or cost of the purchased asset on the first-in, first-out (FIFO) method.

#### **Homes in progress and land (developed and undeveloped)**

Homes in progress and land (developed and undeveloped) are valued based on the lower of accumulated direct costs of acquisition, construction, and renovation of uncompleted homes and land being prepared for sale (cost) or net realizable value.

#### **Mortgage receivable**

Mortgage receivable potentially subject the organization to a concentration of credit risk due to the relatively small geographic area it serves. The organization's credit risk is mitigated by mortgages that are collateralized by the related properties.

In furtherance of its charitable purpose, the organization sells the homes it constructs to qualified applicants for non-interest-bearing mortgage notes. The value of these notes is then discounted to give the organization credit for the value of interest not being charged to homeowners. The rate for discounting mortgages receivable is determined by Habitat for Humanity International, Inc. The discount is recognized by accreting interest using the interest method over the life of the mortgages. Because all mortgages are collateralized and in the process of collection, no mortgage loans have stopped accretion of interest.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE A -- Nature of business and significant accounting policies (Continued)

The organization regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are more than 30 days past due are considered to be in an early stage of default. During the period of delinquency, the organization contacts the homeowner using collection efforts and establishes a payment plan with the homeowner, if necessary. Thereafter, if forgoing collection efforts are not successful, the organization attempts to enter into a mutually agreed-upon deed-in-lieu of foreclosure with the homeowner. Homeowners whose mortgages are more than 120 days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with the organization are subject to foreclosure proceedings.

Based on current relationships with homeowners, the organization has concluded that realized losses on balances outstanding at year-end will be immaterial.

### New markets tax credit (NMTC) - investment in nonmarketable equity securities

The organization has a non-controlling investment in a limited liability company with other Habitat for Humanity affiliates to take advantage of the NMTC program. The organization has elected to measure an investment in nonmarketable equity securities using the measurement alternative in Accounting Standards Update (ASU) 2016-01 (i.e. cost plus or minus changes resulting from observable prices in orderly transactions for the identical or a similar investment of the same issuer), as amended by ASU 2018-03, on a prospective basis (see Note E). Previously, the equity investment was recorded at cost.

### Property and equipment

Property and equipment is stated at cost if purchased or fair value on date of receipt if received as a gift or bequest, less accumulated depreciation. Depreciation of property and equipment is computed by the straight-line method based on the following estimated useful lives. Leasehold improvements are amortized using the straight-line method over the initial term of the lease. Amortization expense is included in depreciation expense.

	<u>Years</u>
Buildings	20 - 40
Improvements	3 - 20
Leasehold improvements	3 - 20
Equipment	3 - 7
Vehicles	4 - 5

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Depreciation expense totaled \$99,918 and \$109,556 for the years ended June 30, 2020 and 2019, respectively.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### **NOTE A -- Nature of business and significant accounting policies (Continued)**

#### **Capitalization policy**

The organization's policy is to capitalize property and equipment with a unit cost in excess of \$2,000 and a useful life of more than one year.

#### **Impairment of long-lived assets**

The organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

#### **NMTC - restricted cash**

Restricted cash represents cash received as a result of the NMTC transaction and will be used to pay future program expenses.

#### **Deferred revenue, NMTC**

The organization recognizes deferred revenue associated with the NMTC transactions as revenue over the seven-year NMTC term.

#### **Deferred revenue, Community Development Financial Institution (CDFI)**

Deferred revenue, CDFI represents the portion of the grant that can be recognized as revenue in future years on a pro rata basis based on the percentage of mortgages issued over the expected mortgages to be issued as disclosed in the grant agreement.

#### **Debt issuance costs**

Debt issuance costs totaled \$112,099 and are being amortized on the straight-line method over 360 months, the life of the loan. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements. Amortized costs included in interest expense totaled \$3,737 and \$3,706 for the years ended June 30, 2020 and 2019, respectively.

#### **Revenue recognition**

Revenue from the sale of completed homes and lots is recognized upon the closing of the sale of the property. The ReStore sales are recorded as revenue at the time of the sale. Other revenue is recognized when earned by the organization.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, such as the payment of expenses related to the restriction), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as net assets without donor restrictions.

Interest, dividends, gains and losses on investments are reported as an increase or decrease in net assets without donor restrictions unless explicitly restricted by donors.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE A -- Nature of business and significant accounting policies (Continued)

#### Donated services and materials

Donated services that create or enhance non-financial assets or that require specialized skill, are performed by people with those skills, and would otherwise be purchased, are recognized as contributions at their estimated fair value in the period received. The organization received 16,833 and 21,950 hours of donated services from volunteers who assisted in the construction of homes during the years ended June 30, 2020 and 2019, respectively. Management estimates the value of these services to be \$252,495 and \$329,250 for the years ended June 30, 2020 and 2019, respectively. The organization received donated professional services of \$5,422 and \$6,170 for the housing program service for the years ended June 30, 2020 and 2019, respectively. Donated materials are recorded at their estimated fair value in the period received and totaled \$116,729 and \$117,723 for the years ended June 30, 2020 and 2019, respectively.

#### Sales tax

The State of Wisconsin and Dane County impose a combined sales tax of 5.5% on the organization's sales to nonexempt customers. The organization collects sales tax from its customers and remits the entire amount to the State. The organization's accounting policy is to exclude the tax collected and remitted to the State from revenue and expenses.

#### Expense allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Each employee of the organization works in a primary program area. Salaries and benefits are allocated on the basis of estimates of time. Non-personnel expenses are attributed to individual programs or supporting function. In certain instances, a portion of the expense is identifiable with a specific program, while the remaining amount is allocated to management and general and/or fundraising.

#### Program services

The organization's significant program services consist of the following:

##### Homebuilding

Since its founding in 1987, the organization has built and then sold homes to working, low-income individuals and families. The organization also assists other city and county agencies to provide low-income housing and remodeling assistance.

##### ReStore

The ReStore accepts donations of new and saleable, used building materials such as cabinets, lighting and plumbing fixtures, doors, lumber, flooring, and windows, most of which would otherwise be placed in a landfill. Some materials are used to build houses and the remainder are sold to the public at 50-75% off the retail price.

#### Advertising

All advertising costs are expensed the first time the advertising takes place. Advertising expense totaled \$78,494 and \$58,519 for the years ended June 30, 2020 and 2019, respectively.



# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE A -- Nature of business and significant accounting policies (Continued)

#### New accounting standards adopted

In November 2016, FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when recording the beginning and ending total amounts shown on the statements of cash flows.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020 and retrospectively apply the amendments to all periods presented. As a result, net cash provided by investing activities previously reported decreased \$266,295 for the year ended June 30, 2019 to exclude the change in restricted cash.

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on the classification of eight cash flow issues to reduce the existing diversification in practice. Specific cash flow issues addressed in this ASU that could apply to the entity include a) debt prepayment or debt extinguishment costs; b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; c) proceeds from the settlement of insurance claims; and d) separately identifiable cash flows and application of the predominance principle.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020 and retrospectively apply the amendments to all periods presented. The adoption of this new standard did not impact the entity's statements of cash flows.

In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received*, which requires an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted by a donor-imposed restriction.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020. The adoption of this new standard did not impact the entity's financial statements.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE A -- Nature of business and significant accounting policies (Continued)

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities)*, and subsequently issued related ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*. These standards amend certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in an entity's income statement. The standards also change the accounting for nonmarketable equity securities and allow for a measurement alternative to measure the investment at cost plus or minus changes resulting from observable prices in orderly transactions for the identical or similar investment of the same issuer. The entity has adopted these ASUs for the year ended June 30, 2020 (see Note E).

### Reclassifications

Some items in the 2019 financial statements have been reclassified to be consistent with the current year's presentation.

### Subsequent events

These financial statements have not been updated for subsequent events occurring after October 23, 2020, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

### NOTE B -- Unconditional promises to give

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

	<u>2020</u>	<u>2019</u>
Unconditional promises to give	\$ 166,191	\$ 262,875
Less unconditional promises to give in one to five years	<u>113,539</u>	<u>119,889</u>
Unconditional promises to give in less than one year	<u>\$ 52,652</u>	<u>\$ 142,986</u>

Unconditional promises to give in less than one year are measured at net realizable value which approximates fair value.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE C -- Mortgages receivable

Mortgages receivable represent amounts due from the purchasers of houses constructed or renovated by the organization. All mortgages receivable are noninterest bearing and are collateralized by real estate. Terms of the mortgages range from 7 to 49 years, with various monthly payment amounts. The average mortgage is approximately 22 years. The contracts also contain a provision that if the house is sold, the deferred profit (appraised value at time of sale to homeowner less initial purchase price) will be due and payable to the organization.

Mortgages receivable as of June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Mortgages receivable	\$ 8,522,809	\$ 8,330,454
Discount to current value	<u>(4,046,763)</u>	<u>(3,994,805)</u>
Mortgage receivable, net	4,476,046	4,335,649
Current portion of mortgages receivable	<u>(942,150)</u>	<u>(894,623)</u>
Long-term portion of mortgages receivable	<u>\$ 3,533,896</u>	<u>\$ 3,441,026</u>

Mortgage receivable are discounted at a rate of 8% for mortgages initiated before fiscal year 2012 and at a rate of 7.39%, 7.58%, 7.51%, 7.48%, 7.46%, 7.57%, 7.66% and 7.38% for mortgages initiated in fiscal years 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020, respectively. The discount is recognized by the interest method over the life of the mortgages.

The credit quality indicator is based on days delinquent. Mortgages receivable aging as of June 30 was as follows:

	<u>2020</u>	<u>2019</u>
30 days past due	\$ 127,404	\$ 229,378
60 days past due	140,502	213,251
90 days past due	83,158	31,510
More than 120 days past due	<u>160,753</u>	<u>61,988</u>
	<u>\$ 511,817</u>	<u>\$ 536,127</u>

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### **NOTE D -- Silent mortgages**

The organization holds silent mortgages recorded against properties. A silent mortgage is a mortgage held on a property in a junior position to the primary mortgage. The amount of the silent mortgage is the difference between the appraised value at closing and the first mortgage plus any other funds applied to the sale. These mortgages do not earn interest and have no value unless there is a triggering event, such as the sale or other transfer of title, default under the first mortgage, or refinancing of the first mortgage by a third-party lender or full payment or refinance of the first mortgage. These mortgages are used primarily to protect against predatory lenders and prevent “flipping” a property for short-term gain. Accordingly, since these silent mortgages have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, the organization does not record the mortgages. The amount of the silent mortgages held by the organization as of June 30, 2020 and 2019 was \$5,562,988 and \$5,504,937, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was a loss from silent mortgages issued of \$185,057 and \$206,910 for the years ended June 30, 2020 and 2019, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was revenue from silent mortgages repaid totaling \$151,083 and \$312,280 for the years ended June 30, 2020 and 2019, respectively.

### **NOTE E -- NMTC investment**

The organization, along with other Habitat for Humanity affiliates, is participating in an investment to take advantage of NMTC financing. The NMTC program permits corporate and individual taxpayers to receive a credit against federal income taxes for making qualified equity investments in qualified community development entities (CDE).

In April 2018, the organization invested \$1,200,000 in HFHI NMTC Leverage Lender 2018, LLC consisting of cash and qualified investment properties. This investment represented a 20.4% ownership as of June 30, 2018. In August 2018, the ownership percentage decreased to 7.95% as three additional Habitat for Humanity affiliates participated in the investment. HFHI NMTC Leverage Lender 2018, LLC contributed its combined resources to Twain Investment Fund 306, LLC (Investment Fund) which received additional investment from U.S. Bancorp Community Development Corporation (Bank) as the federal tax credit investor under the NMTC program.

As part of the NMTC program, the Investment Fund invested in HFHI NMTC Sub-CDE III, LLC, a qualified CDE. The CDE is the conduit for accomplishing the NMTC program specifics of constructing and selling qualified housing properties to low income residents. Under the CDE, the organization secured a 30-year loan in the amount of \$1,767,037 to be used solely in accordance with the NMTC program compliance requirements. The loan requires semi-annual interest-only payments for years one through seven at a rate of .679239%. Beginning in year eight through year thirty, the principal balance of the loan is reduced by a twenty-three year amortization at the same rate. The Investment Fund may be subject to tax credit recapture if the NMTC program compliance requirements are not met over the seven-year period.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE E -- NMTC investment (Continued)

The ultimate holder of the above loan from the CDE to the organization is the Bank through its participation in the Investment Fund. The Bank is expected to waive the payment of the debt so as to participate in the NMTC program via exercising its put option agreement. The Bank may exercise the put option after the end of the seven-year credit period (April 2025). Under the terms of the put option agreement, HFHI NMTC Leverage Lender 2018, LLC is expected to purchase the ownership interest of the Bank in the Investment Fund. Exercise of the option will effectively allow the organization to extinguish its outstanding debt owed to the Bank.

Prior to July 1, 2019, investments in limited liability companies were recorded at cost less impairment, with realized gains and losses on nonmarketable securities sold or impairment recognized in the statement of activities.

On July 1, 2019, the organization adopted ASU 2016-01 and ASU 2018-03, which changed the accounting treatment related to nonmarketable equity securities. As of July 1, 2019, the organization adjusts the carrying value of nonmarketable equity securities up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any (referred to as the measurement alternative). All gains and losses on nonmarketable equity securities, realized and unrealized, if any, are recognized in the statement of activities. Because the ASUs were adopted prospectively, the organization would recognize any unrealized gains that occurred in prior periods in the first period occurring after July 1, 2019, when there is an observable transaction. Therefore, there was no change in net assets reported on the statement of activities or a change in the balance of net assets on the statement of financial position reported as of June 30, 2019, related to the adoption of this measurement alternative.

There was no remeasurement adjustment recognized, as there were no observable transactions identified during the year ended June 30, 2020. Determining whether an observed transaction is similar to a security within the organization's portfolio requires judgment based on the rights and obligations of the securities. Recording upward and downward adjustments to the carrying value of the organization's investments in nonmarketable equity securities as a result of observable price changes requires quantitative assessment of the fair value of the organization's investments using various valuation methodologies and involves the use of estimates.

Nonmarketable equity securities under the measurement alternative are also assessed for impairment. When the qualitative assessment indicates that impairment exists, the investment is written down, with impairment recognized in the statement of activities. No impairment was recognized for the year ended June 30, 2020.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE F -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 864,882	\$ 864,882
Buildings	1,028,720	1,028,720
Improvements	581,271	581,271
Leasehold improvements	51,691	51,691
Vehicles	59,287	36,969
Equipment	<u>208,919</u>	<u>208,919</u>
	2,794,770	2,772,452
Less accumulated depreciation	<u>652,962</u>	<u>556,138</u>
	<u>\$ 2,141,808</u>	<u>\$ 2,216,314</u>

### NOTE G -- Agency endowment

The organization has established an agency endowment at the Madison Community Foundation (MCF). The organization recognizes the fair value of contributions to the agency endowment as support when received. When the organization transfers the agency endowment funds to MCF, it recognizes the transfer as a decrease in cash and the balances are presented in the statements of financial position as an increase to beneficial interest in assets held by MCF.

Under the provisions of MCF's governing instruments and applicable regulations, the Board of Governors of MCF (the Board) have the power to modify any restriction or condition on, or direction as to, the timing, manner, or character of distributions for any specified charitable purposes or foundations if, in the judgment of the Board, such direction restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with any distribution policy adopted by MCF or with the charitable needs of the greater Madison community.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE H -- Fair value disclosure

The fair value measurement for the categories of assets that are measured at fair value on a recurring basis are as follows:

		Fair value measurement using		
<u>6/30/2020</u>	Quoted prices in active markets for identical inputs (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
<u>Assets</u>				
Long-term unconditional promises to give <sup>1</sup>	\$ 113,539	\$ 0	\$ 113,539	\$ 0
Beneficial interest in assets held by MCF <sup>2</sup>	\$ 555,540	\$ 0	\$ 0	\$ 555,540

		Fair value measurement using		
<u>6/30/2019</u>	Quoted prices in active markets for identical inputs (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
<u>Assets</u>				
Long-term unconditional promises to give <sup>1</sup>	\$ 119,889	\$ 0	\$ 119,889	\$ 0
Beneficial interest in assets held by MCF <sup>2</sup>	\$ 570,994	\$ 0	\$ 0	\$ 570,994

1. The long-term portion of unconditional promises to give is derived from the net present value of the receivables more than one year with the consideration of the discount rate. The discount rate used is 4.5%.
2. The organization's beneficial interest in assets held by MCF represents an agreement between the organization and MCF in which the organization transfers assets to MCF in exchange for future distributions. The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of the beneficial interest is measured at proportional share of the underlying assets as reported to the organization by MCF. Little information about those assets is released publicly. The estimated value does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE H -- Fair value disclosure (Continued)

The following table represents the change in the organization's beneficial interest in assets held by MCF as of June 30:

	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 570,994	\$ 538,759
Change in value of beneficial interest included in change in net assets	(9,954)	37,735
Distributions	(19,000)	(19,000)
Restricted contributions	<u>13,500</u>	<u>13,500</u>
Balance, ending	<u>\$ 555,540</u>	<u>\$ 570,994</u>

The change in value of beneficial interest included in change in net assets is reported as agency endowment return on the statements of activities.

### NOTE I -- Endowment

The organization's endowment is held by MCF and shall be held as long as MCF or the organization is in existence. The endowment includes both donor-restricted funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including the investment return, are classified and reported based on the existence or absence of donor-imposed restrictions.

The organization has interpreted Wisconsin's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. However, the organization has notified its donors that they reserve the right to make a distribution from their funds even if the value of the fund drops below the amount of the initial gift. In accordance with Wisconsin's enacted version of UPMIFA, the organization expects it will need to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) organization's investment policies.



# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE I -- Endowment (Continued)

The organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original investment of the endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the board of directors, all endowment assets are invested in a manner that is intended to produce returns to fund the sustainability of the organization's work while assuming a moderate level of investment risk.

Change in endowment net asset activity by type is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions - time or use</u>	<u>With donor restrictions - perpetual endowment</u>	<u>Total</u>
Endowment net assets - June 30, 2018	\$ 99,687	\$ 129,229	\$ 309,843	\$ 538,759
Contributions	0	0	13,500	13,500
Distributions	(3,516)	(15,484)	0	(19,000)
Interest and dividends	3,445	15,174	0	18,619
Investment fees	(1,125)	(4,953)	0	(6,078)
Net appreciation	<u>4,662</u>	<u>20,532</u>	<u>0</u>	<u>25,194</u>
Endowment net assets - June 30, 2019	103,153	144,498	323,343	570,994
Contributions	0	0	13,500	13,500
Distributions	(3,432)	(15,568)	0	(19,000)
Interest and dividends	2,035	9,232	0	11,267
Investment fees	(1,178)	(5,343)	0	(6,521)
Net appreciation	<u>(2,656)</u>	<u>(12,044)</u>	<u>0</u>	<u>(14,700)</u>
Endowment net assets - June 30, 2020	<u>\$ 97,922</u>	<u>\$ 120,775</u>	<u>\$ 336,843</u>	<u>\$ 555,540</u>

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE I -- Endowment (Continued)

Endowment net asset composition by type is as follows:

	Without donor restrictions	With donor restrictions - time or use	With donor restrictions - perpetual endowment	2020 Total
Donor-restricted endowment funds	\$ 0	\$ 120,775	\$ 336,843	\$ 457,618
Board-designated endowment funds	<u>97,922</u>	<u>0</u>	<u>0</u>	<u>97,922</u>
Total funds	<u>\$ 97,922</u>	<u>\$ 120,775</u>	<u>\$ 336,843</u>	<u>\$ 555,540</u>

	Without donor restrictions	With donor restrictions - time or use	With donor restrictions - perpetual endowment	2019 Total
Donor-restricted endowment funds	\$ 0	\$ 144,498	\$ 323,343	\$ 467,841
Board-designated endowment funds	<u>103,153</u>	<u>0</u>	<u>0</u>	<u>103,153</u>
Total funds	<u>\$ 103,153</u>	<u>\$ 144,498</u>	<u>\$ 323,343</u>	<u>\$ 570,994</u>

### NOTE J -- Retirement plan

The organization has a SIMPLE IRA retirement plan that covers substantially all employees with at least one month of service. Pension expense totaled \$22,148 and \$21,570 for the years ended June 30, 2020 and 2019, respectively.

### NOTE K -- Line of credit

The organization opened a \$1,000,000 line of credit with a financial institution at a minimum rate of 4% (4.29% effective January 6, 2020) adjusted to the index rate of the "highest US Prime Rate published in the Wall Street Journal" minus .250 percentage points (.210 percentage points effective January 6, 2020). The line of credit expired on November 6, 2018, and was subsequently renewed and due on January 6, 2021. The line of credit was collateralized by homeowner mortgages.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE L -- Operating leases

The organization has operating leases for the ReStore West facility, storage facilities and a copier with original terms varying from 2 to 12 years. Monthly payments range from \$672 to \$13,241. The monthly rent for the ReStore West facility lease increases every year by 2.8%. The ReStore West facility lease also provides for two automatic renewal periods of three years each and the monthly rent will increase by 2.5% each year in these renewal periods. Rent expense totaled \$190,397 and \$187,396 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2021	\$	200,814
2022		178,711
2023		213,469
2024		218,604
2025		8,034
Thereafter		<u>669</u>
	\$	<u>820,304</u>

The organization entered into an operating lease for a storage facility on August 24, 2020. The lease term is October 1, 2020 to September 30, 2023. The monthly rent is \$1,600.

### NOTE M -- Escrow deposits

The organization maintains separate bank accounts into which it deposits funds received from homeowners pursuant to their mortgages for the payment of real estate taxes, insurance, and homeowners' association fees. The organization uses the accounts for the payment of those charges as they come due. To ensure cash reserves are maintained to fund the escrow deposit liability, the organization's board of directors has required escrow deposits to be placed into separate bank accounts. The cash balance of this account is included in cash and cash equivalents on the statements of financial position. These funds are considered board designated.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE N -- Notes payable, net

Notes payable, net consist of the following:

	<u>2020</u>	<u>2019</u>
Habitat for Humanity International, Inc.; recourse; monthly payments of \$697; non-interest bearing; due July 2021; paid off in full in December 2019.	\$ 0	\$ 2,646
McFarland State Bank; nonrecourse; monthly payments of \$5,020, including interest at 3.99%; due November 30, 2021; secured by a general business security agreement; prepayment is permitted in whole or in part subject to a prepayment premium.	721,606	751,981
Summit Credit Union; nonrecourse; monthly payments of \$8,211, including interest at 3.99%; due February 2022; collateralized by mortgages receivable.	171,653	239,277
HFHI NMTC SUB-CDE III, LLC (see Note E); nonrecourse; semi-annual interest only payments until 2025 at .679239%; semi-annual payments of \$83,124, including interest at .679239%, are due starting November 5, 2025 through the maturity date of April 19, 2048; secured by a loan agreement, deposit account control agreement, deposit account pledge agreement, reserve account control agreement and reserve account pledge agreement; CDE has the option to waive the debt in April 2025 so as to participate in the NMTC program; prepayment is not permitted until after April 19, 2025 and then is permitted in whole or in part without penalty; unamortized debt issuance costs associated with this note was \$104,003 and \$107,740 as of June 30, 2020 and 2019, respectively; interest expense totaled \$12,002 for each of the years ended June 30, 2020 and 2019.	<u>1,767,037</u>	<u>1,767,037</u>
Balance carried forward	2,660,296	2,760,941

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

### NOTE N -- Notes payable, net (Continued)

	2020	2019
Balance brought forward	\$ 2,660,296	\$ 2,760,941
Oregon Community Bank; Paycheck Protection Program loan through the Small Business Administration (SBA) (See Note S); original amount of \$369,400 including interest at 1%; no payments due until the earlier of forgiveness or 10 months after the expiration of the organization's covered period (which can be no later than December 31, 2020); due April 10, 2022; portion of loan can be forgiven; no collateral required.	369,400	0
SBA; nonrecourse; monthly payments of \$641, including interest at 2.75%; monthly payments will begin June 14, 2021; due June 2050; collateralized by mortgages receivable.	160,000	0
	3,189,696	2,760,941
Less unamortized debt issuance costs	104,003	107,740
Less current maturities	148,917	123,547
	\$ 2,936,776	\$ 2,529,654

Repayment of principal on notes payable as of June 30, 2020, is as follows:

Year ending June 30,

2021	\$ 148,917
2022	1,113,742
2023	2,855
2024	3,413
2025	3,508
Thereafter	1,917,261
	\$ 3,189,696

### NOTE O -- Tithe to Habitat for Humanity International, Inc.

With respect for and in support of Habitat for Humanity International, Inc., the organization voluntarily remits a tithe of the undesignated public support it received in the prior year. These funds are used by the international organization for providing housing for the poor around the world. For the years ended June 30, 2020 and 2019, the amounts remitted totaled \$12,900 and \$30,400, respectively.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE P -- Net assets

#### Net assets with donor restrictions – time or use

Net assets with donor restrictions – time or use include assets set aside in accordance with donor restrictions as to time or purpose. Net assets with donor restrictions – time or use are available for the following purposes or periods as of June 30:

	<u>2020</u>	<u>2019</u>
Subsequent years' operations	\$ 166,191	\$ 262,875
Time restriction on endowment earnings	<u>120,775</u>	<u>144,498</u>
	<u>\$ 286,966</u>	<u>\$ 407,373</u>

#### Net assets with donor restrictions – perpetual endowment

Net assets with donor restrictions – perpetual endowment include assets set aside in perpetuity in accordance with donor restrictions. Net assets with donor restrictions – perpetual endowment consist of the endowment held by MCF.

### NOTE Q -- Mortgage sales

During fiscal year 2020, the organization sold 10 mortgages with outstanding balances of \$1,069,002 to one financial institution. The mortgages are serviced by the organization and the outstanding balances were \$1,043,556 as of June 30, 2020.

During fiscal year 2019, the organization sold 6 mortgages with outstanding balances of \$600,334 to one financial institution. The mortgages are serviced by the organization and the outstanding balances were \$563,794 and \$597,523 as of June 30, 2020 and 2019, respectively.

During fiscal year 2018, the organization sold 21 mortgages with outstanding balances of \$1,632,169 to three financial institutions. The mortgages are serviced by the organization and the outstanding balances were \$1,463,923 and \$1,579,187 as of June 30, 2020 and 2019, respectively.

During fiscal year 2017, the organization sold 31 mortgages with outstanding balances of \$2,089,144 to three financial institutions. The mortgages are serviced by the organization and the outstanding balances were \$1,541,058 and \$1,648,489 as of June 30, 2020 and 2019, respectively.

During fiscal year 2016, the organization sold 14 mortgages with outstanding balances of \$1,108,551 to two financial institutions. The mortgages are serviced by the organization and the outstanding balances were \$746,471 and \$797,460 as of June 30, 2020 and 2019, respectively.

During fiscal year 2014, the organization sold 13 mortgages with outstanding balances of \$711,722 to two financial institutions. The mortgages are serviced by the organization and the outstanding balances were \$367,690 and \$415,438 as of June 30, 2020 and 2019, respectively.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### **NOTE Q -- Mortgage sales (Continued)**

During the fiscal year 2012, the organization sold 13 mortgages with outstanding balances of \$587,793 to another financial institution. The mortgages are serviced by the organization and the outstanding balances were \$206,809 and \$248,510 as of June 30, 2020 and 2019, respectively.

During the fiscal year 2010, the organization sold 11 mortgages with an outstanding balance of \$524,009 to a financial institution. The mortgages are serviced by the organization and the outstanding balances were \$19,619 and \$32,106 as of June 30, 2020 and 2019, respectively.

### **NOTE R -- Letters of credit**

As a requirement to develop the Renaissance on the Park and Vandenburg Heights, the organization was required by the City of Fitchburg and City of Sun Prairie, respectively, to obtain letters of credit to ensure completion of both developments.

For the Renaissance on the Park development, the organization established a letter of credit with a financial institution on April 16, 2018 for \$16,800 with a fixed interest rate of 8%. The letter of credit expired May 5, 2020. The organization obtained a new letter of credit on May 5, 2020 for \$18,900 with a fixed interest rate of 8%. The letter of credit expires May 5, 2021, and is secured by mortgages receivable.

For the Vandenburg Heights development, the organization established an irrevocable letter of credit with a financial institution on July 18, 2018 for \$198,077 with a fixed interest rate of 8% and secured by mortgages receivable. The irrevocable letter of credit expired July 18, 2019.

### **NOTE S -- Commitments and contingencies**

#### **Paycheck Protection Program**

On April 10, 2020, the organization qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$369,400 (the "PPP Loan"). The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the organization. The organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in December 2020 principal and interest payments will be required through the maturity date in April 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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### NOTE S -- Commitments and contingencies (Continued)

#### Uncertainty

In March 2020, the World Health Organization (WHO) characterized the coronavirus disease (COVID-19) as a global pandemic. Since that time, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the organization as of October 23, 2020, management believes that a material impact on the organization's financial position and results of future operations is reasonably possible.

### NOTE T -- Availability of financial assets and liquidity

The organization has the following financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date:

	<u>2020</u>	<u>2019</u>
Cash	\$ 967,668	\$ 670,884
Accounts receivable	141,461	113,250
Unconditional promises to give	52,652	142,986
Mortgages receivable	<u>942,150</u>	<u>894,623</u>
	<u>\$ 2,103,931</u>	<u>\$ 1,821,743</u>

The organization receives contributions with donor restrictions to be used in accordance with the associated purpose or time restrictions. When a donor's restriction requires resources to be used in a particular manner or in a future period, the organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

### NOTE U -- Community Development Block Grants and Federal Home Loan Bank of Chicago

During the fiscal year, the organization obtained \$292,162 that was loaned directly to the homeowners at 0% interest from Community Development Block Grants (CDBG) through the City of Madison and Dane County. Since 2016, these 0% loans obtained by the organization have totaled \$1,448,362, impacting both the homeowners and the organization. The organization is impacted as it reduces the amount it has to finance with a silent mortgage. In addition, the organization has collaborated with local financial institution members of the Federal Home Loan Bank of Chicago (FHLB-Chicago) to get loans directly from FHLB-Chicago to homeowners totaling \$84,000 during the fiscal year and \$283,800 since 2016. These loans are forgiven over five years and benefits both the homeowner and the organization.



SUPPLEMENTARY INFORMATION

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
**SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE**  
Year ended June 30, 2020

	City of Madison CDD	Other	Total
<b>PUBLIC SUPPORT, REVENUE AND GAINS</b>			
Revenue on sale of completed homes and lots	\$ 0	\$ 2,775,626	\$ 2,775,626
ReStore sales less cost of goods sold of \$1,821,380	0	92,677	92,677
Mortgage discount amortization	0	324,819	324,819
Gain on sale of mortgages receivable	0	356,920	356,920
Program services	11,354	325,734	337,088
Agency endowment return	0	(1,798)	(1,798)
Gifts and donations	0	984,024	984,024
In-kind contributions	0	1,897,658	1,897,658
Special events	0	86,761	86,761
Interest	0	26,566	26,566
Loss on sale of property and equipment	0	(4,206)	(4,206)
Miscellaneous income	0	25,326	25,326
 Total public support, revenue and gains	 11,354	 6,890,107	 6,901,461
 Expenses:			
Program services:			
Homebuilding	11,354	5,316,557	5,327,911
ReStore	0	1,285,015	1,285,015
 Total program services	 11,354	 6,601,572	 6,612,926
Supporting services:			
Management and general	0	227,033	227,033
Fundraising	0	501,681	501,681
 Total supporting services	 0	 728,714	 728,714
 Total expenses	 11,354	 7,330,286	 7,341,640
Restricted contributions	0	49,250	49,250
Write-off of unconditional promises to give	0	(1,100)	(1,100)
Restricted agency endowment return	0	(8,156)	(8,156)
 Excess revenue (expense)	 \$ 0	 \$ (400,185)	 \$ (400,185)

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**

SCHEDULE OF CITY OF MADISON DEVELOPMENT DIVISION FUNDS EXPENDED BY PROGRAM

Year ended June 30, 2020

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CDD OFFICE FUNDS	
CDD Acquisition Funds	\$ 11,354
FUNDS EXPENDED	
Property developer costs	<u>11,354</u>
Excess	<u><u>\$ 0</u></u>

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
 CITY OF MADISON COMMUNITY DEVELOPMENT DIVISION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended June 30, 2020

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1. Was a Single Audit required?	No
What dollar threshold was used to distinguish between Type A and Type B programs as defined by the Single Audit?	N/A
2. Type of auditor's report issued?	Unmodified
3. Internal control over financial reporting: Were material weakness(s) identified?	No
Were significant deficiency(s) identified not considered to be material weaknesses?	None reported
Was noncompliance material to the financial statements noted?	N/A
4. Internal control over major programs: Were material weakness(s) identified?	N/A
Were significant deficiency(s) identified not considered to be material weaknesses?	N/A
5. Was the indirect cost allocation plan reasonable and acceptable per OMS A-122, or the Uniform Guidance?	N/A
6. Were the actual costs reasonable and allocated appropriately per OMS A-122, or the Uniform Guidance?	N/A
7. Were the costs allocated to the CD Division contracts based on costs incurred, and are they supported by records and documents?	Yes
8. Were any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	N/A
9. Does the audit include an identification of all federal revenue sources and dollar amounts by program?	N/A
10. Does the audit list any financial statement findings?	N/A
11. Does the audit list any federal and state award findings and questioned costs?	N/A
12. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?	No
13. Does the audit report identify any additional audit issues related to the Agency's CD Division grants/contracts?	N/A
14. Does the audit include the schedule of revenue and expenses by program and revenue source?	Yes
15. Does the audit include the schedule of CD Division funds expended by program?	Yes

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
CITY OF MADISON COMMUNITY DEVELOPMENT DIVISION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year ended June 30, 2020

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|--|-----|
| 16. Does the audit include the schedule of real property assets and the debt recorded against each property? | N/A |
| 17. Was a management letter or other document conveying audit comments issued as a result of this audit?     | Yes |

Name and signature of Partner in Charge:



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Kirsten Houghton, CPA, MBA

Date of report

October 23, 2020