

# Habitat for Humanity of Dane County, Inc.

Financial Report

June 30, 2021

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

## **Emphasis of Matter**

As discussed in Note A to the financial statements, in fiscal 2021, the entity adopted a new accounting standard. 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 29, 2021

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
General balance	\$ 882,663	\$ 967,668
Escrow deposits	463,680	451,800
	1,346,343	1,419,468
Cash and cash equivalents	1,346,343	1,419,468
Unconditional promises to give	34,211	52,652
Accounts receivable	115,035	141,461
Inventories	208,781	192,539
Prepaid expenses	38,874	23,121
Homes in progress	1,255,143	1,347,860
Mortgage notes receivable	946,386	942,150
	3,944,773	4,119,251
Total current assets	3,944,773	4,119,251
<b>LONG-TERM ASSETS</b>		
New markets tax credit - investment	1,200,000	1,200,000
Property and equipment, net	2,046,741	2,141,808
New markets tax credit - other asset/guaranty fee	48,680	61,379
New markets tax credit - restricted cash	80,176	109,926
Unconditional promises to give	83,209	113,539
Mortgages receivable	3,711,543	3,533,896
Land (developed and undeveloped)	4,557,144	1,614,862
Beneficial interest in assets held by MCF	689,985	555,540
	12,417,478	9,330,950
Total long-term assets	12,417,478	9,330,950
<b>TOTAL ASSETS</b>	\$ 16,362,251	\$ 13,450,201
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 543,221	\$ 263,564
Escrow deposits	448,033	441,877
Deferred revenue, new markets tax credit	48,679	66,233
Refundable advance, Community Development Financial Institution grant	33,462	0
Accrued expenses	235,834	203,337
Current portion of notes payable	715,581	148,917
	2,024,810	1,123,928
Total current liabilities	2,024,810	1,123,928
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net	4,430,882	2,936,776
	4,430,882	2,936,776
Total long-term liabilities	4,430,882	2,936,776
<b>TOTAL LIABILITIES</b>	6,455,692	4,060,704
<b>NET ASSETS</b>		
Net assets without donor restrictions	9,218,394	8,765,688
Net assets with donor restrictions:		
Net assets with donor restrictions - time or use	337,822	286,966
Net assets with donor restrictions - perpetual endowment	350,343	336,843
	688,165	623,809
Total net assets with donor restrictions	688,165	623,809
Total net assets	9,906,559	9,389,497
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 16,362,251	\$ 13,450,201

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, 2021 and 2020

	2021	2020
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Public support, revenue and gains:		
Homebuilding:		
Revenue on sale of completed homes and lots	\$ 2,355,199	\$ 2,775,626
Mortgage discount amortization	461,488	324,819
Gain on sale of mortgages receivable	376,696	356,920
Gifts and donations	2,400	7,400
In-kind contributions	285,131	374,645
Program services	213,191	337,088
Total homebuilding	3,694,105	4,176,498
ReStore:		
ReStore sales less cost of goods sold of \$1,907,093 and \$1,621,008	101,948	92,677
Gifts and donations	10,397	1,054
In-kind contributions	1,780,082	1,523,013
Total ReStore	1,892,427	1,616,744
Contributions & other public support:		
Gifts and donations	1,304,763	975,570
Special events	20,217	86,761
Total contributions & other public support	1,324,980	1,062,331
Other income:		
Agency endowment return	24,667	(1,798)
Interest	13,118	26,566
Gain (loss) on sale of property and equipment	0	(4,206)
Gain from extinguishment of debt	369,400	0
Miscellaneous income	26,774	25,326
Total other income	433,959	45,888
Total public support, revenue and gains	7,345,471	6,901,461
Expenses:		
Program services:		
Homebuilding	4,839,563	5,327,911
ReStore	1,421,748	1,285,015
Total program services	6,261,311	6,612,926
Supporting services:		
Management and general	235,379	227,033
Fundraising	478,905	501,681
Total supporting services	714,284	728,714
Total expenses	6,975,595	7,341,640
Net assets released from restrictions	105,672	146,901
Change in net assets without donor restrictions	475,548	(293,278)

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS - TIME OR USE</b>		
Contributions	\$ 41,250	\$ 35,750
Net assets released from restrictions	(105,672)	(146,901)
Write-off of unconditional promises to give	(22,842)	(1,100)
Agency endowment return	<u>115,278</u>	<u>(8,156)</u>
Change in net assets with donor restrictions - time or use	28,014	(120,407)
<b>NET ASSETS WITH DONOR RESTRICTIONS - PERPETUAL ENDOWMENT</b>		
Contributions	<u>13,500</u>	<u>13,500</u>
Change in net assets	517,062	(400,185)
Net assets, beginning	<u>9,389,497</u>	<u>9,789,682</u>
Net assets, ending	<u>\$ 9,906,559</u>	<u>\$ 9,389,497</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, 2021

	Program services			Supporting services			Total expenses
	Homebuilding	ReStore	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Cost of sales	\$ 2,618,980	\$ 0	\$ 2,618,980	\$ 0	\$ 0	\$ 0	\$ 2,618,980
Mortgage discount expense	997,316	0	997,316	0	0	0	997,316
Personnel	874,206	796,006	1,670,212	154,252	271,646	425,898	2,096,110
Occupancy	108,359	331,907	440,266	7,818	14,583	22,401	462,667
Tools, equipment, and technology	66,196	70,783	136,979	5,806	30,407	36,213	173,192
Depreciation	10,759	55,981	66,740	31,920	0	31,920	98,660
Office expenses	10,649	23,542	34,191	1,861	4,728	6,589	40,780
Publicity	0	77,407	77,407	0	135,438	135,438	212,845
Cost of goods sold	0	1,907,093	1,907,093	0	0	0	1,907,093
Tithe to Habitat for Humanity International, Inc.	30,000	0	30,000	0	0	0	30,000
Professional services	20,381	9,729	30,110	26,102	1,924	28,026	58,136
Volunteer and family	8,689	5,389	14,078	0	0	0	14,078
Travel	5,044	2,087	7,131	3,928	739	4,667	11,798
El Salvador trip expenses	0	0	0	0	0	0	0
Miscellaneous	34,556	48,917	83,473	3,692	19,440	23,132	106,605
Interest	54,428	0	54,428	0	0	0	54,428
<b>Total expenses</b>	<b>4,839,563</b>	<b>3,328,841</b>	<b>8,168,404</b>	<b>235,379</b>	<b>478,905</b>	<b>714,284</b>	<b>8,882,688</b>
Less expenses included with revenues on the statements of activities							
Cost of goods sold	0	(1,907,093)	(1,907,093)	0	0	0	(1,907,093)
<b>Total expenses included in the expense section of the statements of activities</b>	<b>\$ 4,839,563</b>	<b>\$ 1,421,748</b>	<b>\$ 6,261,311</b>	<b>\$ 235,379</b>	<b>\$ 478,905</b>	<b>\$ 714,284</b>	<b>\$ 6,975,595</b>



**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.

### STATEMENTS OF CASH FLOWS Years ended June 30, 2021 and 2020

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 517,062	\$ (400,185)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Write-off of unconditional promises to give	22,842	1,100
Depreciation	98,660	99,918
Amortization of debt issuance costs	3,737	3,737
Agency endowment return	(139,945)	9,954
Contributions restricted for permanent endowment	(13,500)	(13,500)
Amortization of discount on mortgages receivable	(461,488)	(324,819)
Discount on mortgages receivable	997,316	947,629
Gain on sale of mortgages receivable	(376,696)	(356,920)
Loss (gain) on sale of property and equipment	0	4,206
Gain from extinguishment of debt	(369,400)	0
Increase (decrease) in cash due to changes in:		
Unconditional promises to give	25,929	95,584
Accounts receivable	26,426	(28,211)
Inventories	(16,242)	(15,459)
Prepaid expenses	(15,753)	(5,825)
Homes in progress	(1,368,357)	(1,186,399)
Land (developed and undeveloped)	(3,325,221)	(63,597)
New markets tax credit - other asset/guaranty fee	12,699	12,699
Accounts payable	279,657	(35,823)
Escrow deposits	6,156	12,702
Accrued expenses	32,497	24,432
Deferred revenue	(17,554)	(235,770)
Refundable advance	33,462	0
Net cash used in operating activities	(4,047,713)	(1,454,547)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,593)	(30,318)
Proceeds from sale of property and equipment	0	700
Proceeds from sale of mortgages receivable	831,333	855,071
Collections on mortgages receivable	671,665	475,881
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	1,504,905	1,306,834
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for permanent endowment	13,500	13,500
Proceeds from notes payable	2,549,639	529,400
Principal payments on notes payable	(123,206)	(100,645)
Net cash provided by financing activities	2,439,933	442,255
Change in cash, cash equivalents, and restricted cash	(102,875)	294,542
Cash, cash equivalents, and restricted cash:		
Beginning	1,529,394	1,234,852
Ending	\$ 1,426,519	\$ 1,529,394
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 1,346,343	\$ 1,419,468
Restricted cash	80,176	109,926
Total cash, cash equivalents, and restricted cash	\$ 1,426,519	\$ 1,529,394

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, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 50,691</u>	<u>\$ 49,292</u>
<b>SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
New mortgages issued	<u>\$ 1,844,013</u>	<u>\$ 1,737,239</u>
Transfer to completed homes from homes in progress	<u>\$ 1,844,013</u>	<u>\$ 1,737,239</u>
Transfer to homes in progress from land for development	<u>\$ 382,939</u>	<u>\$ 260,693</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, 2021

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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, 2021

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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, 2021

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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 \$98,660 and \$99,918 for the years ended June 30, 2021 and 2020, respectively.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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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.

#### **Refundable advance, Community Development Financial Institution (CDFI)**

Refundable advance, 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 for each of the years ended June 30, 2021 and 2020.

#### **Revenue recognition – contribution transactions**

##### Contributions and grants

The organization recognizes contributions when cash, other assets or a notification of an unconditional promise to give is received and records the amounts as contribution revenue with or without restrictions, depending on the existence and/or nature of any donor restrictions. Conditional contributions are only recognized when the conditions on which they depend are substantially met.

Donor-restricted support is reported as an increase in net assets with donor restrictions. 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.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

#### **Revenue recognition – contracts with customers**

##### Revenues from ReStore retail sales

A portion of the organization's revenue is derived from ReStore sales. Recognition of revenue is conditioned upon meeting one performance obligation; the sales transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made (point in time). Once the sale is made, customers take possession of the goods purchased. The organization does have a return policy for the items sold at the ReStores and the dollar value of returns is not material to the organization.

##### Revenues from sale of properties

A portion of the organization's revenue is derived from home sales during the year. Due to the nature of the contracts, there is no variable consideration and only one performance obligation. The revenue is conditioned upon meeting a certain performance obligation and amounts received are recognized as revenue once the requirement has been met. Once construction is complete and the closing process has been completed, buyers take possession of the home and the performance obligation is considered to have been met (point in time). Each house sold has a defined purchase price based on a third-party appraisal. Contracts are considered to have commercial substance as they all involve a cash down payment and a signed promissory note, which is paid in accordance with the note terms. All direct materials, direct labor costs, and other direct costs related to construction activities are inventoried, and then charged to expenses upon closing. Costs incurred in connection with completed homes, selling, and administrative costs are charged to expenses as incurred.

##### Revenues from sale of mortgages receivable

A portion of the organization's revenue is derived from the sales of mortgages receivable during the year. Due to the nature of the contracts, there is no variable consideration and only one performance obligation. The revenue is conditioned upon meeting a certain performance obligation and amounts received are recognized as revenue once the requirement has been met. Mortgages receivable are purchased at a discounted value of the aggregate outstanding principal due, using a discount rate of 1.5%. Once the closing process has been completed, the mortgages receivable transfers to the purchasing financial institution, and the performance obligation is considered to have been met (point in time).

##### Revenue recognition - special events

The organization sells tickets and offers sponsorships for its special events. Ticket sales and sponsorships are nonrefundable and are comprised of an exchange element based on the value of benefits provided to the donors, and a contribution element for the difference between total ticket sales and sponsorships paid and the exchange element. The organization recognizes the exchange portion of these events in the year the event takes place (point in time), and the contribution portion immediately. The contribution portion of revenue included in special events on the statements of activities is not material to the financial statements.



# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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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 14,147 and 16,833 hours of donated services from volunteers who assisted in the construction of homes during the years ended June 30, 2021 and 2020, respectively. Management estimates the value of these services to be \$212,198 and \$252,495 for the years ended June 30, 2021 and 2020, respectively. The organization received donated professional services of \$5,072 and \$5,422 for the housing program service for the years ended June 30, 2021 and 2020, respectively. Donated materials are recorded at their estimated fair value in the period received and totaled \$67,861 and \$116,729 for the years ended June 30, 2021 and 2020, 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 \$76,947 and \$78,494 for the years ended June 30, 2021 and 2020, respectively.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

#### New accounting standards adopted

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, *Revenue from Contracts with Customers*) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive.

The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, the new Topic 606 and Subtopic 340-40 is referred to as the "new guidance."

The organization adopted the requirements of the new guidance as of July 1, 2020, utilizing the modified retrospective method of transition. There was no cumulative adjustment to net assets as of July 1, 2020, to reflect the effect of the new guidance. The organization applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2020.

The modified retrospective method of transition requires the organization to disclose the effect of applying the new guidance on each item included in the 2020 financial statements. There were no changes to the amounts of any line items in the statement of financial position, statement of activities, or statement of cash flows as of and for the year ended June 30, 2020, that would have been reported under the former guidance.

#### Subsequent events

These financial statements have not been updated for subsequent events occurring after October 29, 2021, 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>2021</u>	<u>2020</u>
Unconditional promises to give	\$ 117,420	\$ 166,191
Less unconditional promises to give in one to five years	<u>83,209</u>	<u>113,539</u>
Unconditional promises to give in less than one year	<u>\$ 34,211</u>	<u>\$ 52,652</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, 2021

### 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 the 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>2021</u>	<u>2020</u>
Mortgages receivable	\$ 8,701,198	\$ 8,522,809
Discount to current value	<u>(4,043,269)</u>	<u>(4,046,763)</u>
Mortgages receivable, net	4,657,929	4,476,046
Current portion of mortgages receivable	<u>(946,386)</u>	<u>(942,150)</u>
Long-term portion of mortgages receivable	<u>\$ 3,711,543</u>	<u>\$ 3,533,896</u>

Mortgages 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%, 7.38% and 7.23% for mortgages initiated in fiscal years 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021, 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>2021</u>	<u>2020</u>
30 days past due	\$ 118,734	\$ 127,404
60 days past due	66,689	140,502
90 days past due	27,636	83,158
More than 120 days past due	<u>182,725</u>	<u>160,753</u>
	<u>\$ 395,784</u>	<u>\$ 511,817</u>

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

The organization holds silent mortgages recorded against properties. A silent mortgage is defined as 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, 2021 and 2020 was \$5,652,899 and \$5,562,988, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was a loss on silent mortgages issued of \$196,124 and \$185,057 for the years ended June 30, 2021 and 2020, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was revenue from silent mortgages repaid totaling \$89,323 and \$151,083 for the years ended June 30, 2021 and 2020, 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, 2021

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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.

In a prior year, the organization adopted ASU 2016-01 and ASU 2018-03, which changed the accounting treatment related to nonmarketable equity securities. Under the new standards, 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.

There was no remeasurement adjustment recognized, as there were no observable transactions identified during the year ended June 30, 2021 and 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 years ended June 30, 2021 and 2020.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

Property and equipment, net is comprised of the following:

	<u>2021</u>	<u>2020</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	60,287	59,287
Equipment	<u>211,512</u>	<u>208,919</u>
	2,798,363	2,794,770
Less accumulated depreciation	<u>751,622</u>	<u>652,962</u>
	<u>\$ 2,046,741</u>	<u>\$ 2,141,808</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, 2021

### 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>6/30/2021</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>				
Beneficial interest in assets held by MCF <sup>1</sup>	\$ <u>689,985</u>	\$ <u>0</u>	\$ <u>689,985</u>	

		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>				
Beneficial interest in assets held by MCF <sup>1</sup>	\$ <u>555,540</u>	\$ <u>0</u>	\$ <u>555,540</u>	

- 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.

The total purchases/contributions to the beneficial interest in assets held by MCF was \$13,500 for each of the years ended June 30, 2021 and 2020.

### 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.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### NOTE I – Endowment (Continued)

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.

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:

	Without donor restrictions	With donor restrictions - time or use	With donor restrictions - perpetual endowment	Total
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 depreciation	<u>(2,656)</u>	<u>(12,044)</u>	<u>0</u>	<u>(14,700)</u>
Endowment net assets - June 30, 2020	97,922	120,775	336,843	555,540
Contributions	0	0	13,500	13,500
Distributions	(3,349)	(15,651)	0	(19,000)
Interest and dividends	2,264	10,580	0	12,844
Investment fees	(1,492)	(6,975)	0	(8,467)
Net appreciation	<u>23,896</u>	<u>111,672</u>	<u>0</u>	<u>135,568</u>
Endowment net assets - June 30, 2021	<u>\$ 119,241</u>	<u>\$ 220,401</u>	<u>\$ 350,343</u>	<u>\$ 689,985</u>



# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### 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	2021 Total
Donor-restricted endowment funds	\$ 0	\$ 220,401	\$ 350,343	\$ 570,744
Board-designated endowment funds	119,241	0	0	119,241
Total funds	\$ 119,241	\$ 220,401	\$ 350,343	\$ 689,985
	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	97,922	0	0	97,922
Total funds	\$ 97,922	\$ 120,775	\$ 336,843	\$ 555,540

### 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 \$24,434 and \$22,148 for the years ended June 30, 2021 and 2020, respectively.

### NOTE K -- Lines of credit

The organization opened a \$1,000,000 line of credit with a financial institution at a minimum rate of 4% (3.25% effective January 6, 2021) 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, 2021). The line of credit expired on November 6, 2018 and was subsequently renewed and is due on January 6, 2022. The line of credit was collateralized by homeowner mortgages. No amounts have been drawn on this line of credit as of June 30, 2021.

The organization opened a \$2,872,000 line of credit with a financial institution at a minimum rate of 3.94% (3.25% effective September 1, 2020) adjusted to the index rate of the "highest US Prime Rate published in the Wall Street Journal" minus .250 percentage points (.690 percentage points effective September 1, 2020). The line of credit expires on September 1, 2022. The line of credit was collateralized by 502 Town Hall Drive, Sun Prairie, WI 53590. As of June 30, 2021, \$1,541,902 has been drawn on this line of credit.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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### NOTE K -- Lines of credit (Continued)

The organization opened a \$795,597 line of credit with a financial institution at a minimum rate of 3.94% (3.25% effective January 21, 2021) adjusted to the index rate of the "highest US Prime Rate published in the Wall Street Journal" minus .250 percentage points (.690 percentage points effective January 21, 2021). The line of credit was to expire July 21, 2021. A change in terms agreement was executed on July 21, 2021 extending the line of credit expiration to November 21, 2021. The line of credit was collateralized by 502 Town Hall Drive, Sun Prairie, WI 53590. As of June 30, 2021, \$623,862 has been drawn on this line of credit.

### 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 \$669 to \$13,963. 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 to 2025 and the monthly rent will increase by 2.5% each year in these renewal periods. Rent expense totaled \$234,138 and \$190,397 for the years ended June 30, 2021 and 2020, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2022	\$	223,351
2023		258,109
2024		223,404
2025		205,473
2026		<u>669</u>
	\$	<u>911,006</u>

### 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, 2021

### NOTE N -- Notes payable, net

Notes payable, net consist of the following:

	<u>2021</u>	<u>2020</u>
One Community Bank (formerly known as 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.	689,984	721,606
Summit Credit Union; nonrecourse; monthly payments of \$8,211, including interest at 3.99%; due February 2022; collateralized by mortgages receivable.	80,069	171,653
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 \$100,266 and \$104,003 as of June 30, 2021 and 2020, respectively; interest expense totaled \$12,002 for each of the years ended June 30, 2021 and 2020.	1,767,037	1,767,037
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; loan was forgiven in full on February 16, 2021.	<u>0</u>	<u>369,400</u>
Balance carried forward	2,537,090	3,029,696

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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

	2021	2020
Balance brought forward	\$ 2,537,090	\$ 3,029,696
One Community Bank; Paycheck Protection Program loan through the Small Business Administration (SBA) (See Note S); original amount of \$383,875 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, 2021); due February 17, 2026; portion of loan can be forgiven; no collateral required.	383,875	0
SBA; Economic Injury Disaster Loan (EIDL); original amount of \$160,000; requested to alleviate economic injury caused by disaster occurring due to the COVID-19 pandemic; interest at 2.75%; monthly payments of principal and interest of \$641 beginning 12 months from the date of the note (June 14, 2020) due June 14, 2050; monthly payments deferred 12 months (June 2022); collateralized by inventory, equipment, promissory notes, deposit accounts, general intangibles, etc.	160,000	160,000
	5,246,729	3,189,696
Less unamortized debt issuance costs	100,266	104,003
Less current maturities	715,581	148,917
	\$ 4,430,882	\$ 2,936,776

Repayment of principal on notes payable as of June 30, 2021, is as follows:

Year ending June 30,

2022	\$ 715,581
2023	1,565,388
2024	25,117
2025	26,252
2026	411,491
Thereafter	2,502,900
	\$ 5,246,729

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

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### 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, 2021 and 2020, the amounts remitted totaled \$30,000 and \$12,900, respectively.

### 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>2021</u>	<u>2020</u>
Subsequent years' operations	\$ 117,420	\$ 166,191
Time restriction on endowment earnings	<u>220,402</u>	<u>120,775</u>
	<u>\$ 337,822</u>	<u>\$ 286,966</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 2021, the organization sold 9 mortgages with outstanding balances of \$993,964 to one financial institution. The mortgages are serviced by the organization and the outstanding balances were \$970,125 as of June 30, 2021.

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 \$992,667 and \$1,043,556 as of June 30, 2021 and 2020, respectively.

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 \$530,065 and \$563,794 as of June 30, 2021 and 2020, 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 \$1,387,902 and \$1,463,923 as of June 30, 2021 and 2020, respectively.

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021

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

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 \$1,341,556 and \$1,541,058 as of June 30, 2021 and 2020, 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 \$611,132 and \$746,471 as of June 30, 2021 and 2020, 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 \$320,022 and \$367,690 as of June 30, 2021 and 2020, respectively.

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 \$161,177 and \$206,809 as of June 30, 2021 and 2020, 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 \$0 and \$19,619 as of June 30, 2021 and 2020, 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 and 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 expired May 5, 2021 and was secured by mortgages receivable. The letter of credit was not renewed.

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 and was not renewed.

# HABITAT FOR HUMANITY OF DANE COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021

### 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"). PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the organization. The organization obtained forgiveness of the PPP loan on February 16, 2021 and recognized the entire amount as a gain on forgiveness of debt in the statements of activities.

On February 17, 2021, the organization qualified for and received a second loan pursuant to the 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 \$383,875 (the "PPP Loan"). The principal amount of the PPP Loan is subject to forgiveness under the PPP 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 2021 principal and interest payments will be required through the maturity date in February 2026. 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.

The SBA retains the right to review the eligibility of any borrower, regardless of the size of the loan. If the SBA subsequently determines the borrower was ineligible for the PPP loans after forgiveness, the borrower must immediately repay the loans to the lender.

### 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>2021</u>	<u>2020</u>
Cash	\$ 882,663	\$ 967,668
Accounts receivable	115,035	141,461
Unconditional promises to give	34,211	52,652
Mortgages receivable	<u>946,386</u>	<u>942,150</u>
	<u>\$ 1,977,810</u>	<u>\$ 2,103,931</u>

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2021

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**NOTE T -- Availability of financial assets and liquidity (Continued)**

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 years ended June 30, 2021 and 2020, the organization obtained \$318,300 and \$292,162, respectively, in funding from Community Development Block Grants (CDBG) through the City of Madison and Dane County. The funds were loaned directly to homeowners at 0% interest. Since 2016, the 0% loans totaled \$1,766,662 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 institutions who are members of the Federal Home Loan Bank of Chicago (FHLB-Chicago) to get loans directly from FHLB-Chicago to homeowners totaling \$78,000 and \$84,000 during the fiscal years ended June 30, 2021 and 2020, respectively, and totaling \$361,800 since 2016. These loans are forgiven over five years and benefit both the homeowner and the organization.

**NOTE V -- CDFI grant**

In January 2021, the organization was awarded a \$650,000 grant from the CDFI. Of this amount, \$220,000 was received during the fiscal year ended June 30, 2021. Since these funds are conditioned on the organization issuing a certain amount of mortgage loans, the funds are not recorded as contribution revenue until the grant conditions are met. For the fiscal year ended June 30, 2021, \$186,538 was recognized as contribution revenue and \$33,462 is recorded as a refundable advance on the statement of financial position.

**NOTE W -- Subsequent event**

On August 5, 2021, the organization was awarded a \$200,000 grant for operations under the CDFI Rapid Response Program.



## SUPPLEMENTARY INFORMATION

**HABITAT FOR HUMANITY OF DANE COUNTY, INC.**  
**SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE**  
Year ended June 30, 2021

	City of Madison CDD	Other	Total
<b>PUBLIC SUPPORT, REVENUE AND GAINS</b>			
Revenue on sale of completed homes and lots	\$ 0	\$ 2,355,199	\$ 2,355,199
ReStore sales less cost of goods sold of \$1,907,093	0	101,948	101,948
Mortgage discount amortization	0	461,488	461,488
Gain on sale of mortgages receivable	0	376,696	376,696
Program services	10,413	202,778	213,191
Agency endowment return	0	24,667	24,667
Gifts and donations	0	1,317,560	1,317,560
In-kind contributions	0	2,065,213	2,065,213
Special events	0	20,217	20,217
Interest	0	13,118	13,118
Gain on extinguishment of debt	0	369,400	369,400
Miscellaneous income	0	26,774	26,774
<b>Total public support, revenue and gains</b>	<b>10,413</b>	<b>7,335,058</b>	<b>7,345,471</b>
<b>Expenses:</b>			
Program services:			
Homebuilding	10,413	4,829,150	4,839,563
ReStore	0	1,421,748	1,421,748
<b>Total program services</b>	<b>10,413</b>	<b>6,250,898</b>	<b>6,261,311</b>
Supporting services:			
Management and general	0	235,379	235,379
Fundraising	0	478,905	478,905
<b>Total supporting services</b>	<b>0</b>	<b>714,284</b>	<b>714,284</b>
<b>Total expenses</b>	<b>10,413</b>	<b>6,965,182</b>	<b>6,975,595</b>
Restricted contributions	0	54,750	54,750
Write-off of unconditional promises to give	0	(22,842)	(22,842)
Restricted agency endowment return	0	115,278	115,278
<b>Excess revenue (expense)</b>	<b>\$ 0</b>	<b>\$ 517,062</b>	<b>\$ 517,062</b>

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

**SCHEDULE OF CITY OF MADISON DEVELOPMENT DIVISION FUNDS EXPENDED BY PROGRAM**

Year ended June 30, 2021

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CDD OFFICE FUNDS	
CDD Acquisition Funds	\$ 10,413
FUNDS EXPENDED	
Property developer costs	<u>10,413</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, 2021

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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, 2021

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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 29, 2021