

Habitat for Humanity of Dane County, Inc.

Financial Report

June 30, 2017

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	6
Statements of cash flows	7
Notes to financial statements	9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE	24
SCHEDULE OF CITY OF MADISON COMMUNITY DEVELOPMENT DIVISION FUNDS EXPENDED BY PROGRAM	25
CITY OF MADISON COMMUNITY DEVELOPMENT DIVISION SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26



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 statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We did not observe the physical inventory (stated at \$233,823) as of June 30, 2017, as the organization's records do not contain physical counts of inventory. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures including the amount of cost of goods sold (stated at \$1,529,982) and in-kind contributions – ReStore (stated at \$1,529,216) for the year then ended.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Habitat for Humanity of Dane County, Inc. as of June 30, 2016, were audited by other auditors whose report dated September 30, 2016, expressed an unmodified opinion on those statements.

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 24) 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 25) 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, such 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

November 9, 2017

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
General balance	\$ 275,795	\$ 750,432
Escrow deposits	378,212	350,757
Cash and cash equivalents	654,007	1,101,189
Unconditional promises to give	353,652	399,078
Accounts receivable	49,087	14,701
Inventories	233,823	240,330
Prepaid expenses	13,835	13,771
Deposits	14,200	44,020
Homes in progress	1,048,618	1,736,942
Mortgages receivable	822,032	629,365
Total current assets	3,189,254	4,179,396
LONG-TERM ASSETS		
Property and equipment, net	2,254,907	538,057
Unconditional promises to give	281,106	378,582
Mortgages receivable	3,759,970	4,627,989
Land (developed and undeveloped)	1,314,316	591,498
Beneficial interest in assets held by MCF	498,536	441,152
Total long-term assets	8,108,835	6,577,278
TOTAL ASSETS	<u>\$ 11,298,089</u>	<u>\$ 10,756,674</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 213,353	\$ 293,524
Escrow deposits	378,069	350,757
Accrued expenses	110,123	111,908
Grant payable	47,600	0
Current portion of notes payable	116,950	85,098
Total current liabilities	866,095	841,287
LONG-TERM LIABILITIES		
Notes payable	1,115,321	426,889
TOTAL LIABILITIES	1,981,416	1,268,176
NET ASSETS		
Unrestricted	8,355,584	8,361,000
Temporarily restricted	665,246	846,155
Permanently restricted	295,843	281,343
Total net assets	9,316,673	9,488,498
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,298,089</u>	<u>\$ 10,756,674</u>

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, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Public support, revenue and gains:		
Homebuilding:		
Revenue on sale of completed homes and lots	\$ 2,165,370	\$ 1,852,204
Mortgage discount amortization	302,146	446,170
Gain on sale of mortgages receivable	732,966	305,425
Gifts and donations	19,300	18,339
In-kind contributions	467,894	539,053
Program services	49,538	44,968
	<u>3,737,214</u>	<u>3,206,159</u>
Total homebuilding	3,737,214	3,206,159
ReStore:		
ReStore sales less cost of goods sold of \$1,529,982 and \$1,520,825	128,054	184,063
Gifts and donations	1,041	4,250
In-kind contributions	1,529,216	1,554,907
	<u>1,658,311</u>	<u>1,743,220</u>
Total ReStore	1,658,311	1,743,220
Contributions & other public support:		
Gifts and donations	733,633	1,088,915
In-kind contributions	10,684	66,076
Special events	48,410	48,545
	<u>792,727</u>	<u>1,203,536</u>
Total contributions & other public support	792,727	1,203,536
Other income:		
Agency endowment return	12,108	(3,356)
Interest	1,119	1,718
Loss on sale of property and equipment	(763)	0
Miscellaneous income	29,174	12,509
	<u>41,638</u>	<u>10,871</u>
Total other income	41,638	10,871
Total unrestricted public support, revenue and gains	6,229,890	6,163,786
Expenses:		
Program services:		
Homebuilding	4,751,806	3,607,947
ReStore	1,207,809	1,179,000
	<u>5,959,615</u>	<u>4,786,947</u>
Total program services	5,959,615	4,786,947
Supporting services:		
Management and general	221,938	190,178
Fundraising	493,351	592,257
	<u>715,289</u>	<u>782,435</u>
Total supporting services	715,289	782,435
Total expenses	6,674,904	5,569,382
Net assets released from restrictions	<u>439,598</u>	<u>272,567</u>
Change in unrestricted net assets	(5,416)	866,971

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ 208,913	\$ 484,210
Net assets released from restrictions	(439,598)	(272,567)
Write-off of unconditional promises to give	0	(35,000)
Agency endowment return	<u>49,776</u>	<u>(13,101)</u>
Change in temporarily restricted net assets	(180,909)	163,542
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>14,500</u>	<u>15,000</u>
Change in net assets	(171,825)	1,045,513
Net assets, beginning	<u>9,488,498</u>	<u>8,442,985</u>
Net assets, ending	<u>\$ 9,316,673</u>	<u>\$ 9,488,498</u>

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

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2017 and 2016

	Program services			Supporting services			Total expenses
	Homebuilding	ReStore	Total program services	Management and general	Fundraising	Total supporting services	
2017							
Expenses:							
Cost of sales	\$ 2,762,586	\$ 56,636	\$ 2,819,222	\$ 0	\$ 0	\$ 0	\$ 2,819,222
Mortgage discount expense	934,223	0	934,223	0	0	0	934,223
Personnel	773,140	639,529	1,412,669	169,160	327,818	496,978	1,909,647
Occupancy	85,689	305,832	391,521	3,608	12,897	16,505	408,026
Tools, equipment, and technology	42,234	63,949	106,183	1,319	16,304	17,623	123,806
Office expenses	10,668	15,643	26,311	1,393	8,351	9,744	36,055
Publicity	6,638	60,209	66,847	0	74,599	74,599	141,446
Tithe to Habitat for Humanity International, Inc.	25,000	0	25,000	0	0	0	25,000
Professional services	14,423	11,696	26,119	28,944	14,560	43,504	69,623
Volunteer and family	25,523	11,312	36,835	0	0	0	36,835
Travel	10,725	4,131	14,856	5,381	4,318	9,699	24,555
El Salvador trip expenses	0	0	0	0	0	0	0
Miscellaneous	22,227	38,872	61,099	12,133	34,504	46,637	107,736
Interest	38,730	0	38,730	0	0	0	38,730
Total expenses	\$ 4,751,806	\$ 1,207,809	\$ 5,959,615	\$ 221,938	\$ 493,351	\$ 715,289	\$ 6,674,904
2016							
Expenses:							
Cost of sales	\$ 1,933,710	\$ 55,178	\$ 1,988,888	\$ 0	\$ 0	\$ 0	\$ 1,988,888
Mortgage discount expense	665,881	0	665,881	0	0	0	665,881
Personnel	686,435	568,607	1,255,042	154,587	278,490	433,077	1,688,119
Occupancy	71,196	376,208	447,404	3,370	13,588	16,958	464,362
Tools, equipment, and technology	48,633	49,404	98,037	1,797	29,828	31,625	129,662
Office expenses	11,988	16,443	28,431	1,661	8,047	9,708	38,139
Publicity	12,069	59,704	71,773	0	183,913	183,913	255,686
Tithe to Habitat for Humanity International, Inc.	71,300	0	71,300	0	0	0	71,300
Professional services	22,891	9,803	32,694	21,207	52,298	73,505	106,199
Volunteer and family	17,633	9,762	27,395	0	0	0	27,395
Travel	5,858	3,736	9,594	4,434	8,750	13,184	22,778
El Salvador trip expenses	17,853	0	17,853	0	0	0	17,853
Miscellaneous	20,707	30,155	50,862	3,122	17,343	20,465	71,327
Interest	21,793	0	21,793	0	0	0	21,793
Total expenses	\$ 3,607,947	\$ 1,179,000	\$ 4,786,947	\$ 190,178	\$ 592,257	\$ 782,435	\$ 5,569,382

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

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (171,825)	\$ 1,045,513
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Write-off of unconditional promises to give	0	35,000
Depreciation	72,791	80,536
Agency endowment return	(61,884)	16,430
Contributions restricted for permanent endowment	(14,500)	(15,000)
Amortization of discount on mortgages receivable	(302,146)	(446,170)
Discount on mortgages receivable	934,223	665,881
Foreclosures on mortgages receivable	21,313	129,824
Gain on sale of mortgages receivable	(732,966)	(305,425)
Loss on sale of property and equipment	763	0
Increase (decrease) in cash due to changes in:		
Unconditional promises to give	142,902	(249,769)
Accounts receivable	(34,386)	51,216
Inventories	6,507	(21,605)
Prepaid expenses	(64)	1,251
Deposits	29,820	(21,443)
Homes in progress	(936,130)	(1,930,587)
Land (developed and undeveloped)	(755,015)	0
Accounts payable	(80,171)	72,933
Escrow deposits	27,312	17,227
Accrued expenses	(1,785)	29,249
Grant payable	47,600	0
Net cash used in operating activities	(1,807,641)	(844,939)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(965,404)	(118,006)
Purchases of land for development	0	(2,600)
Purchase of improvements on homes in progress	0	(36,530)
Proceeds from sale of mortgages receivable	1,817,119	878,372
Collections on mortgages receivable	594,460	640,706
Purchase of beneficial interest in assets held by MCF	(14,500)	(15,000)
Proceeds from beneficial interest in assets held by MCF	19,000	0
Net cash provided by investing activities	1,450,675	1,346,942
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent endowment	14,500	15,000
Principal payments on notes payable	(104,716)	(91,201)
Proceeds from line of credit	405,000	0
Payments on line of credit	(405,000)	0
Net cash used in financing activities	(90,216)	(76,201)
Change in cash and cash equivalents	(447,182)	425,802
Cash and cash equivalents:		
Beginning	1,101,189	675,387
Ending	\$ 654,007	\$ 1,101,189

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 38,730</u>	<u>\$ 21,793</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
New mortgages issued	<u>\$ 1,656,651</u>	<u>\$ 1,313,680</u>
Transfer to completed homes from homes in progress	<u>\$ 1,656,651</u>	<u>\$ 1,313,680</u>
Transfer to homes in progress from land for development	<u>\$ 32,197</u>	<u>\$ 379,916</u>
Purchase of property and equipment with proceeds from notes payable	<u>\$ 825,000</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, 2017

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. that was 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 then 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 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets have been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets have been restricted by donors to be maintained by the organization in perpetuity.

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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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.

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 recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Accounts receivable

The organization considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If amounts become uncollectible they will be charged to operations when that determination is made. Accounts receivable are not interest-bearing. 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 market value 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 accumulated direct costs of acquisition, construction, and renovation of uncompleted homes and land being prepared for sale (cost) or market.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Mortgages receivable

Mortgage notes 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 well collateralized and in the process of collection, no mortgage loans have stopped accretion of interest.

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.

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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Depreciation expense totaled \$72,791 and \$80,536 for the years ended June 30, 2017 and 2016, respectively.

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.

Revenue recognition

Revenue from the sale of completed homes and lots is recognized upon the closing of the sale of the property. 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 unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, 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), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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 unrestricted.

Interest, dividends, gains and losses on investments are reported as an increase or decrease in unrestricted net assets unless explicitly restricted by donors.

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 23,960 and 27,919 hours of donated services from volunteers who assisted in the construction of homes during the years ended June 30, 2017 and 2016, respectively. Management estimates the value of these services to be \$359,400 and \$434,293 for the years ended June 30, 2017 and 2016, respectively. The organization received donated professional services of \$22,405 and \$13,856 for the years ended June 30, 2017 and 2016, respectively. The organization also received donated marketing and advertising services promoting the capital campaign totaling \$0 and \$62,628 for the years ended June 30, 2017 and 2016, respectively. Donated materials are recorded at their estimated fair value in the period received and totaled \$96,773 and \$94,352 for the years ended June 30, 2017 and 2016, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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 that sales tax from 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 costs of providing program services and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs of direct benefits to donors is not material and is included with the fundraising expenses.

Program services

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

Housing

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 \$59,216 and \$55,937 for the years ended June 30, 2017 and 2016, respectively.

Subsequent events

These financial statements have not been updated for subsequent events occurring after November 9, 2017, 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.

Reclassifications

Some items in the 2016 financial statements have been reclassified to be consistent with the current year's presentation. Land (developed and undeveloped) and property and equipment, net were reclassified to long-term assets in the statement of financial position. In-kind contributions totaling \$2,160,036 were broken out between homebuilding (\$539,053), ReStore (\$1,554,907) and contributions and other public support (\$66,076) in the statement of activities. Gifts and donations totaling \$1,159,204 were broken out between homebuilding (\$18,339), ReStore (\$4,250), contributions and other public support (\$1,088,915) and ReStore sales (\$47,700) in the statement of activities.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B -- Unconditional promises to give

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

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 634,758	\$ 777,660
Less unconditional promises to give in one to five years	<u>281,106</u>	<u>378,582</u>
Unconditional promises to give in less than one year	<u>\$ 353,652</u>	<u>\$ 399,078</u>

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

NOTE C -- Conditional promises to give

The organization received a conditional promise to give of \$250,000 from a donor for the Capital Campaign in 2015 based on the organization meeting a specific fundraising target for the campaign. The organization met the condition during 2016 and the promise to give was included in gifts and donations on the statements of activities.

NOTE D -- Mortgages receivable

Mortgages receivable represent amounts due from the purchasers of houses constructed or renovated by the organization. All mortgages 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>2017</u>	<u>2016</u>
Mortgages receivable	\$ 8,994,643	\$ 10,042,910
Discount to current value	<u>(4,412,641)</u>	<u>(4,785,556)</u>
Mortgage receivable, net	4,582,002	5,257,354
Current portion of mortgages receivable	<u>(822,032)</u>	<u>(629,365)</u>
Long term portion of mortgages receivable	<u>\$ 3,759,970</u>	<u>\$ 4,627,989</u>

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE D -- Mortgages receivable (Continued)

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% and 7.46% for mortgages initiated in fiscal years 2013, 2014, 2015, 2016 and 2017, respectively. The discount is recognized by the interest method over the life of the mortgages. Mortgages receivable aging as of June 30 was as follows:

	<u>2017</u>	<u>2016</u>
Less than 60 days past due	\$ 4,449,388	\$ 5,031,008
60 days past due	29,378	88,127
90 days past due	0	0
More than 90 days past due	<u>103,236</u>	<u>138,219</u>
	<u>\$ 4,582,002</u>	<u>\$ 5,257,354</u>

NOTE E -- 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, 2017 and 2016, was \$5,610,775 and \$5,332,016, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was a loss from silent mortgages issued of \$360,649 and \$54,020 for the years ended June 30, 2017 and 2016, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was revenue from silent mortgages repaid totaling \$148,019 and \$237,224 for the years ended June 30, 2017 and 2016, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 916,613	\$ 89,731
Buildings	1,211,192	264,276
Improvements*	299,636	0
Leasehold improvements*	53,161	349,451
Vehicles	53,769	44,569
Equipment	<u>213,931</u>	<u>212,050</u>
	2,448,666	960,077
Less accumulated depreciation	<u>493,395</u>	<u>422,020</u>
	<u>\$ 2,254,907</u>	<u>\$ 538,057</u>

*On November 30, 2016, the organization purchased the ReStore East facility. The leasehold improvements incurred in prior years for this facility totaled \$299,636 and were reclassified from "leasehold improvements" to "improvements" as of June 30, 2017.

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, 2017

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		
	6/30/2017	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 ¹	\$ 281,106	\$ 0	\$ 281,106	\$ 0
Beneficial interest in assets held by MCF ²	\$ 498,536	\$ 0	\$ 0	\$ 498,536

		Fair value measurement using		
	6/30/2016	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 ¹	\$ 378,582	\$ 0	\$ 378,582	\$ 0
Beneficial interest in assets held by MCF ²	\$ 441,152	\$ 0	\$ 0	\$ 441,152

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.
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, 2017

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>2017</u>	<u>2016</u>
Balance, beginning	\$ 441,152	\$ 442,582
Change in value of beneficial interest included in change in net assets	61,884	(16,430)
Distributions	(19,000)	0
Permanently restricted contributions	<u>14,500</u>	<u>15,000</u>
Balance, ending	<u>\$ 498,536</u>	<u>\$ 441,152</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.

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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE I – Endowment (Continued)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets - June 30, 2015	\$ 89,643	\$ 86,596	\$ 266,343	\$ 442,582
Contributions	0	0	15,000	15,000
Interest and dividends	1,089	4,291	0	5,380
Investment fees	(964)	(3,792)	0	(4,756)
Net depreciation	(3,454)	(13,600)	0	(17,054)
Endowment net assets - June 30, 2016	86,314	73,495	281,343	441,152
Contributions	0	0	14,500	14,500
Distributions	(3,717)	(15,283)	0	(19,000)
Interest and dividends	2,386	9,806	0	12,192
Investment fees	(1,033)	(4,244)	0	(5,277)
Net appreciation	10,755	44,214	0	54,969
Endowment net assets - June 30, 2017	\$ 94,705	\$ 107,988	\$ 295,843	\$ 498,536

Endowment net asset composition by type is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	2017 Total
Donor-restricted endowment funds	\$ 0	\$ 107,988	\$ 295,843	\$ 403,831
Board-designated endowment funds	94,705	0	0	94,705
Total funds	\$ 94,705	\$ 107,988	\$ 295,843	\$ 498,536
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Donor-restricted endowment funds	\$ 0	\$ 73,495	\$ 281,343	\$ 354,838
Board-designated endowment funds	86,314	0	0	86,314
Total funds	\$ 86,314	\$ 73,495	\$ 281,343	\$ 441,152

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 \$16,961 and \$25,172 for the years ended June 30, 2017 and 2016, respectively.

NOTE K -- Line of credit

On August 6, 2014, the organization opened a \$1,000,000 line of credit with a financial institution at a minimum rate of 3.25% (4% effective August 6, 2017) adjusted to the index rate of the "highest US Prime Rate published in the Wall Street Journal" minus .250 percentage points. The line of credit expired on August 6, 2017, and was subsequently renewed and due on November 6, 2018. The line of credit is collateralized by homeowner mortgages. There was no outstanding balance on the line of credit as of June 30, 2017 and 2016.

NOTE L -- Operating leases

The organization has operating leases for the ReStore West facility, a storage facility and two copiers with original terms varying from 2 to 12 years. The total monthly rent expense for these leases was \$15,222. Rent expense totaled \$179,990 and \$261,033 for the years ended June 30, 2017 and 2016, respectively. The organization exercised its option to purchase the ReStore East facility on August 5, 2016 and the purchase of the facility closed on November 30, 2016.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2018	\$	183,016
2019		162,616
2020		166,957
2021		164,688
2022		<u>170,677</u>
	\$	<u>847,954</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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE N -- Notes payable

Notes payable consist of the following:

	<u>2017</u>	<u>2016</u>
Habitat for Humanity International, Inc.; recourse; monthly payments of \$697; non-interest bearing; due July 2021.	\$ 13,134	\$ 21,518
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.	809,086	0
Summit Credit Union; nonrecourse; monthly payments of \$8,211, including interest at 3.99%; due February 2022; collateralized by mortgages receivable.	<u>410,051</u>	<u>490,469</u>
	1,232,271	511,987
Less current maturities	<u>116,950</u>	<u>85,098</u>
	<u>\$ 1,115,321</u>	<u>\$ 426,889</u>

Repayment of principal on notes payable as of June 30, 2017, is as follows:

Year ending June 30,

2018	\$ 116,950
2019	121,506
2020	123,547
2021	125,933
2022	<u>744,335</u>
	<u>\$ 1,232,271</u>

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, 2017 and 2016, the amounts remitted totaled \$25,000 and \$71,300, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE P -- Net assets

Temporarily restricted net assets

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

	<u>2017</u>	<u>2016</u>
Subsequent years' operations	\$ 557,258	\$ 593,599
Thrivent House sponsorship	0	72,500
Materials for future building projects	0	106,561
Time restriction on endowment earnings	<u>107,988</u>	<u>73,495</u>
	<u>\$ 665,246</u>	<u>\$ 846,155</u>

Permanently restricted net assets

Permanently restricted net assets include assets set aside in perpetuity in accordance with donor restrictions. Permanently restricted net assets consist of the endowment held by MCF.

NOTE Q -- Mortgage sales

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 \$1,953,093 as of June 30, 2017.

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 \$989,124 and \$1,051,302 as of June 30, 2017 and 2016, 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 \$547,574 and \$600,315 as of June 30, 2017 and 2016, 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 \$339,152 and \$386,237 as of June 30, 2017 and 2016, 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 \$66,055 and \$84,796 as of June 30, 2017 and 2016, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE R -- Capital campaign

Habitat Dane began planning for an 18 month capital campaign at the end of fiscal year 2014. The silent phase began at the beginning of fiscal year 2015 with the seating of the campaign cabinet and the initial major donor meetings beginning. This campaign allows Habitat Dane to take advantage of current low land prices and to build more efficiently in land groupings. The campaign will also allow Habitat to serve more families and build long-term support in the community. Plans call for the purchase and development of more than 70 home lots in at least four Dane County neighborhoods. Habitat Dane completed the campaign in June 2016.

NOTE S -- Letter of credit

As a requirement to develop the Renaissance on the Park development, the organization was required by the City of Fitchburg to obtain a letter of credit to ensure completion of the development. The organization established an Irrevocable Letter of Credit with a financial institution on June 21, 2016 for \$610,000 with a fixed interest rate of 8%. The organization cancelled the letter of credit on April 19, 2017, and obtained a new letter of credit on June 7, 2017 for \$98,000. The letter of credit expires June 7, 2018, and is secured by mortgages receivable.

NOTE T -- Subsequent event

On August 21, 2017, the organization purchased land for future home sites from a third-party seller in the amount of \$700,000.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE
Year ended June 30, 2017

	City of Madison CDD	Other	Total
PUBLIC SUPPORT, REVENUE AND GAINS			
Revenue on sale of completed homes and lots	\$ 0	\$ 2,165,370	\$ 2,165,370
ReStore sales less cost of goods sold of \$1,529,982	0	128,054	128,054
Mortgage discount amortization	0	302,146	302,146
Gain on sale of mortgages receivable	0	732,966	732,966
Program services	18,900	30,638	49,538
Agency endowment return	0	12,108	12,108
Gifts and donations	0	753,974	753,974
In-kind contributions	0	2,007,794	2,007,794
Special events	0	48,410	48,410
Interest	0	1,119	1,119
Loss on sale of property and equipment	0	(763)	(763)
Miscellaneous income	0	29,174	29,174
Total unrestricted public support, revenue and gains	18,900	6,210,990	6,229,890
Expenses:			
Program services:			
Homebuilding	18,900	4,732,906	4,751,806
ReStore	0	1,207,809	1,207,809
Total program services	18,900	5,940,715	5,959,615
Supporting services:			
Management and general	0	221,938	221,938
Fundraising	0	493,351	493,351
Total supporting services	0	715,289	715,289
Total expenses	18,900	6,656,004	6,674,904
Restricted contributions	0	223,413	223,413
Restricted agency endowment return	0	49,776	49,776
Excess revenue (expense)	\$ 0	\$ (171,825)	\$ (171,825)

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

SCHEDULE OF CITY OF MADISON DEVELOPMENT DIVISION FUNDS EXPENDED BY PROGRAM
Year ended June 30, 2017

CDD OFFICE FUNDS	
CDD Acquisition Funds	\$ 18,900
FUNDS EXPENDED	
Property developer costs	<u>18,900</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, 2017

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?	Modified
3. Internal control over financial reporting:	
Were material weakness(s) identified?	Yes
Were significant deficiency(s) identified not considered to be material weaknesses?	None reported
Was noncompliance material to the financial statements noted?	No
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?	No
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?	No
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, 2017

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:



Kirsten Houghton, CPA, MBA

Date of report

November 9, 2017