

Habitat for Humanity of Dane County, Inc.

Financial Report

June 30, 2022

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, WI

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Dane County, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Dane County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity of Dane County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Dane County, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 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 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 28, 2022

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
General balance	\$ 677,348	\$ 882,663
Escrow deposits	510,065	463,680
Cash and cash equivalents	1,187,413	1,346,343
Unconditional promises to give	77,295	34,211
Accounts receivable	42,710	40,035
Grants receivable	108,413	75,000
Inventories	264,175	208,781
Prepaid expenses	85,799	38,874
Homes in progress	368,787	1,255,143
Mortgage receivable	1,016,316	946,386
Total current assets	3,150,908	3,944,773
LONG-TERM ASSETS		
New markets tax credit - investment	1,200,000	1,200,000
Property and equipment, net	1,981,946	2,046,741
New markets tax credit - other asset/guaranty fee	35,981	48,680
New markets tax credit - restricted cash	55,280	80,176
Unconditional promises to give	57,160	83,209
Mortgages receivable	4,510,827	3,711,543
Land (developed and undeveloped)	4,469,238	4,557,144
Beneficial interest in assets held by MCF	652,821	689,985
Total long-term assets	12,963,253	12,417,478
TOTAL ASSETS	\$ 16,114,161	\$ 16,362,251
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 256,892	\$ 543,221
Escrow deposits	504,923	448,033
Deferred revenue, new markets tax credit	35,980	48,679
Refundable advance, Community Development Financial Institution grant	0	33,462
Accrued expenses	132,510	235,834
Current portion of notes payable	36,221	91,719
Current portion of lines of credit	2,347,575	623,862
Total current liabilities	3,314,101	2,024,810
LONG-TERM LIABILITIES		
Notes payable, net	2,806,286	2,888,980
Lines of credit	0	1,541,902
TOTAL LIABILITIES	6,120,387	6,455,692
NET ASSETS		
Net assets without donor restrictions	9,317,629	9,218,394
Net assets with donor restrictions:		
Net assets with donor restrictions - time or use	315,802	337,822
Net assets with donor restrictions - perpetual endowment	360,343	350,343
Total net assets with donor restrictions	676,145	688,165
Total net assets	9,993,774	9,906,559
TOTAL LIABILITIES AND NET ASSETS	\$ 16,114,161	\$ 16,362,251

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, 2022 and 2021

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Public support, revenue and gains:		
Homebuilding:		
Revenue on sale of completed homes and lots	\$ 3,538,625	\$ 2,355,199
Mortgage discount amortization	347,175	461,488
Gain on sale of mortgages receivable	0	376,696
Gifts and donations	4,541	2,400
In-kind contributions	356,869	285,131
Program services	502,559	213,191
Total homebuilding	4,749,769	3,694,105
ReStore:		
ReStore sales less cost of goods sold of \$2,151,065 and \$1,907,093	74,583	101,948
Gifts and donations	11,902	10,397
In-kind contributions	2,037,452	1,780,082
Total ReStore	2,123,937	1,892,427
Contributions & other public support:		
Gifts and donations	1,300,861	1,304,763
Special events	31,624	20,217
Total contributions & other public support	1,332,485	1,324,980
Other income (loss):		
Agency endowment return	(4,357)	24,667
Interest	13,048	13,118
Gain from extinguishment of debt	383,875	369,400
Miscellaneous income	24,296	26,774
Total other income (loss)	416,862	433,959
Total public support, revenue and gains	8,623,053	7,345,471
Expenses:		
Program services:		
Homebuilding	6,354,578	4,839,563
ReStore	1,466,278	1,421,748
Total program services	7,820,856	6,261,311
Supporting services:		
Management and general	250,629	235,379
Fundraising	511,446	478,905
Total supporting services	762,075	714,284
Total expenses	8,582,931	6,975,595
Net assets released from restrictions	59,063	105,672
Change in net assets without donor restrictions	99,185	475,548

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NET ASSETS WITH DONOR RESTRICTIONS - TIME OR USE		
Contributions	\$ 57,900	\$ 41,250
Net assets released from restrictions	(59,063)	(105,672)
Write-off of unconditional promises to give	0	(22,842)
Agency endowment return	<u>(20,857)</u>	<u>115,278</u>
Change in net assets with donor restrictions - time or use	(22,020)	28,014
NET ASSETS WITH DONOR RESTRICTIONS - PERPETUAL ENDOWMENT		
Contributions	<u>10,050</u>	<u>13,500</u>
Change in net assets	87,215	517,062
Net assets, beginning	<u>9,906,559</u>	<u>9,389,497</u>
Net assets, ending	<u>\$ 9,993,774</u>	<u>\$ 9,906,559</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, 2022

	Program services			Supporting services			Total expenses
	Homebuilding	ReStore	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Cost of sales	\$ 3,837,032	\$ 0	\$ 3,837,032	\$ 0	\$ 0	\$ 0	\$ 3,837,032
Mortgage discount expense	1,268,841	0	1,268,841	0	0	0	1,268,841
Personnel	871,154	777,450	1,648,604	150,660	265,749	416,409	2,065,013
Occupancy	120,129	361,012	481,141	5,774	13,874	19,648	500,789
Tools, equipment, and technology	78,494	76,364	154,858	5,915	35,463	41,378	196,236
Depreciation	6,708	53,564	60,272	34,674	0	34,674	94,946
Office expenses	13,903	25,294	39,197	1,855	15,035	16,890	56,087
Publicity	2,558	73,644	76,202	0	136,473	136,473	212,675
Cost of goods sold	0	2,151,065	2,151,065	0	0	0	2,151,065
Tithe to Habitat for Humanity International, Inc.	45,000	0	45,000	0	0	0	45,000
Professional services	9,071	9,762	18,833	32,590	11,178	43,768	62,601
Volunteer and family	20,579	10,331	30,910	0	0	0	30,910
Travel	5,112	3,394	8,506	12,375	3,605	15,980	24,486
Miscellaneous	30,730	75,463	106,193	6,786	30,069	36,855	143,048
Interest	45,267	0	45,267	0	0	0	45,267
Total expenses	6,354,578	3,617,343	9,971,921	250,629	511,446	762,075	10,733,996
Less expenses included with revenues on the statements of activities							
Cost of goods sold	0	(2,151,065)	(2,151,065)	0	0	0	(2,151,065)
Total expenses included in the expense section of the statements of activities	\$ 6,354,578	\$ 1,466,278	\$ 7,820,856	\$ 250,629	\$ 511,446	\$ 762,075	\$ 8,582,931

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
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
Total expenses	4,839,563	3,328,841	8,168,404	235,379	478,905	714,284	8,882,688
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)
Total expenses included in the expense section of the statements of activities	\$ 4,839,563	\$ 1,421,748	\$ 6,261,311	\$ 235,379	\$ 478,905	\$ 714,284	\$ 6,975,595

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 87,215	\$ 517,062
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Write-off of unconditional promises to give	0	22,842
Depreciation	94,946	98,660
Amortization of debt issuance costs	3,737	3,737
Agency endowment return	25,214	(139,945)
Contributions restricted for permanent endowment	(10,050)	(13,500)
Amortization of discount on mortgages receivable	(347,175)	(461,488)
Discount on mortgages receivable	1,268,841	997,316
Gain on sale of mortgages receivable	0	(376,696)
Gain from extinguishment of debt	(383,875)	(369,400)
Increase (decrease) in cash due to changes in:		
Unconditional promises to give	(17,035)	25,929
Accounts receivable	(2,675)	22,426
Grants receivable	(33,413)	4,000
Inventories	(55,394)	(16,242)
Prepaid expenses	(46,925)	(15,753)
Homes in progress	(1,473,204)	(1,368,357)
Land (developed and undeveloped)	75,642	(3,325,221)
New markets tax credit - other asset/guaranty fee	12,699	12,699
Accounts payable	(286,329)	279,657
Escrow deposits	56,890	6,156
Accrued expenses	(103,324)	32,497
Deferred revenue	(12,699)	(17,554)
Refundable advance, Community Development Financial Institution grant	(33,462)	33,462
Net cash used in operating activities	(1,180,376)	(4,047,713)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(30,151)	(3,593)
Proceeds from sale of mortgages receivable	0	831,333
Collections on mortgages receivable	580,944	671,665
Purchase of beneficial interest in assets held by MCF	(10,050)	(13,500)
Proceeds from beneficial interest in assets held by MCF	22,000	19,000
Net cash provided by investing activities	562,743	1,504,905
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent endowment	10,050	13,500
Proceeds from notes payable	350,000	383,875
Principal payments on notes payable	(108,054)	(123,206)
Proceeds from lines of credit	1,230,256	2,165,764
Payments on lines of credit	(1,048,445)	0
Net cash provided by financing activities	433,807	2,439,933
Change in cash, cash equivalents, and restricted cash	(183,826)	(102,875)
Cash, cash equivalents, and restricted cash:		
Beginning	1,426,519	1,529,394
Ending	\$ 1,242,693	\$ 1,426,519

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 1,187,413	\$ 1,346,343
Restricted cash	<u>55,280</u>	<u>80,176</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 1,242,693</u>	<u>\$ 1,426,519</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 71,752</u>	<u>\$ 72,533</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
New mortgages issued	<u>\$ 2,371,824</u>	<u>\$ 1,844,013</u>
Transfer to completed homes from homes in progress	<u>\$ 2,371,824</u>	<u>\$ 1,844,013</u>
Transfer to homes in progress from land for development	<u>\$ 12,264</u>	<u>\$ 382,939</u>
Forgiveness of Paycheck Protection Program loan	<u>\$ 383,875</u>	<u>\$ 369,400</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, 2022

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, 2022

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.

Accounts receivable from contracts with customers as of June 30, consisted of the following:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Home repairs	<u>\$ 37,974</u>	<u>\$ 33,985</u>	<u>\$ 51,039</u>

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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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

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.

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).

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 \$94,946 and \$98,660 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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, 2022 and 2021.

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, 2022

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 home repairs income

A portion of the organization's revenue is derived from home repairs during the year. Due to the nature of 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. The organization recognizes income from home repairs when the home repairs have been completed and the mortgage documents are signed (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, 2022

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

In-kind contributions

The organization received the following in-kind contributions for the years ended June 30,:

	<u>2022</u>	<u>2021</u>
Construction services	\$ 320,461	\$ 212,198
Professional services	1,000	5,072
Construction materials	<u>35,408</u>	<u>67,861</u>
Total donated goods and services	356,869	285,131
Inventory – ReStore donations	<u>2,037,452</u>	<u>1,780,082</u>
	<u>\$ 2,394,321</u>	<u>\$ 2,065,213</u>

The organization's policy related to in-kind contributions is to utilize the assets given to carry out the mission of the organization. If an asset is provided that does not allow the organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The organization receives donated construction materials for use in home rehabilitation and for sale at the ReStore. The organization has elected to value goods at the estimated fair market value. The estimated fair value of the goods is based on prior year sales data for each particular item. In-kind donated goods, including ReStore donations, for the years ended June 30, 2022 and 2021 totaled \$2,072,860 and \$1,847,943, respectively.

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 21,364 and 14,147 hours of donated services from volunteers who assisted in the construction of homes during the years ended June 30, 2022 and 2021, respectively. Management estimates the value of these services at a current market rate of \$15 per hour for a total of \$320,461 and \$212,198 for the years ended June 30, 2022 and 2021, respectively. The organization received donated professional services of \$1,000 and \$5,072 for the housing program service for the years ended June 30, 2022 and 2021, respectively, also valued at the current market rate for these services.

All in-kind contributions received by the organization for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the organization as determined by the board of directors and management.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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 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, insurance and rent are allocated on the basis of estimates of time. Other 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 based on estimates of time spent.

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 \$73,619 and \$76,947 for the years ended June 30, 2022 and 2021, respectively.

New accounting standard adopted

In September 2020, FASB issued Accounting Standards Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets, which provides more transparency and consistency to the presentation and disclosure of contributed nonfinancial assets.

The organization was required to adopt this new accounting standard during its fiscal year ended June 30, 2022. The adoption of this new standard requires the entity to apply presentation and disclosure changes retrospectively to all periods presented. The adoption of this new standard did not have a material impact on the entity's financial statements.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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

Accounting standards updates

Leases (ASC 842)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU 2020-05 which deferred the effective date of ASU 2016-02 to fiscal years beginning after December 15, 2021. Early application is permitted. Management is currently evaluating the effects this new standard will have on the organization's financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. The objective of ASU No. 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. As a result, the amendments in this update replace the current incurred loss impairment methodology with one that reflects the expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, including historical experience, current conditions, and reasonable and supportable forecasts. In November 2019, the FASB issued ASU 2019-10 which deferred the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022. Early application is permitted. Management is currently evaluating the effects this new standard will have on the organization's financial statements.

Reclassifications

Some items in the June 30, 2021 financial statements have been reclassified to be consistent with the current year's presentation. The most significant reclassifications were between notes payable and lines of credit and between accounts receivable and grants receivable. On the statement of financial position, the current portion of lines of credit for \$623,862 was reclassified from current portion of notes payable and under long-term liabilities, lines of credit of \$1,541,902 were reclassified to a separate line from notes payable, net. Grants receivable in the amount of \$75,000 were reclassified to a separate line from accounts receivable on the statement of financial position. On the statement of cash flows, proceeds from lines of credit of \$2,165,764, were reclassified from proceeds from notes payable.

Subsequent events

These financial statements have not been updated for subsequent events occurring after October 28, 2022, 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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE B -- Unconditional promises to give

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

	<u>2022</u>	<u>2021</u>
Unconditional promises to give	\$ 134,455	\$ 117,420
Less unconditional promises to give in one to five years	<u>57,160</u>	<u>58,825</u>
Unconditional promises to give in less than one year	<u>\$ 77,295</u>	<u>\$ 58,595</u>

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 25 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>2022</u>	<u>2021</u>
Mortgages receivable	\$ 10,492,078	\$ 8,701,198
Discount to current value	<u>(4,964,935)</u>	<u>(4,043,269)</u>
Mortgages receivable, net	5,527,143	4,657,929
Current portion of mortgages receivable	<u>(1,016,316)</u>	<u>(946,386)</u>
Long-term portion of mortgages receivable	<u>\$ 4,510,827</u>	<u>\$ 3,711,543</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%, 7.23%, and 7.41% for mortgages initiated in fiscal years 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022 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>2022</u>	<u>2021</u>
30 days past due	\$ 34,983	\$ 118,734
60 days past due	19,715	66,689
90 days past due	52,584	27,636
More than 120 days past due	<u>143,222</u>	<u>182,725</u>
	<u>\$ 250,504</u>	<u>\$ 395,784</u>

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022 and 2021 was \$5,642,889 and \$5,652,899, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was a loss on silent mortgages issued of \$184,715 and \$196,124 for the years ended June 30, 2022 and 2021, respectively. Included in revenue on sale of completed homes and lots in the statements of activities was revenue from silent mortgages repaid totaling \$202,440 and \$89,323 for the years ended June 30, 2022 and 2021, 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.

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).

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE E -- NMTC investment (Continued)

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.

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, 2022 and 2021. 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, 2022 and 2021.

NOTE F -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2022</u>	<u>2021</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	57,872	60,287
Equipment	<u>241,663</u>	<u>211,512</u>
	2,826,099	2,798,363
Less accumulated depreciation	<u>844,153</u>	<u>751,622</u>
	<u>\$ 1,981,946</u>	<u>\$ 2,046,741</u>

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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.

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>6/30/2022</u>	<u>Quoted prices in active markets for identical inputs (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>	
<u>Assets</u>				
Beneficial interest in assets held by MCF ¹	\$ 652,821	\$ 0	\$ 0	\$ 652,821

		Fair value measurement using		
<u>6/30/2021</u>	<u>Quoted prices in active markets for identical inputs (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>	
<u>Assets</u>				
Beneficial interest in assets held by MCF ¹	\$ 689,985	\$ 0	\$ 0	\$ 689,985

- 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 were \$10,050 and \$13,500 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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, 2022

NOTE I – Endowment (Continued)

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

	<u>Without donor restrictions</u>	<u>With donor restrictions - time or use</u>	<u>With donor restrictions - perpetual endowment</u>	<u>Total</u>
Endowment net assets - June 30, 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	119,241	220,401	350,343	689,985
Contributions	50	0	10,000	10,050
Distributions	(3,802)	(18,198)	0	(22,000)
Interest and dividends	3,188	15,260	0	18,448
Investment fees	(1,368)	(6,547)	0	(7,915)
Net appreciation	<u>(6,178)</u>	<u>(29,569)</u>	<u>0</u>	<u>(35,747)</u>
Endowment net assets - June 30, 2022	<u>\$ 111,131</u>	<u>\$ 181,347</u>	<u>\$ 360,343</u>	<u>\$ 652,821</u>

Endowment net asset composition by type is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions - time or use</u>	<u>With donor restrictions - perpetual endowment</u>	<u>2022 Total</u>
Donor-restricted endowment funds	\$ 0	\$ 181,347	\$ 360,343	\$ 541,690
Board-designated endowment funds	<u>111,131</u>	<u>0</u>	<u>0</u>	<u>111,131</u>
Total funds	<u>\$ 111,131</u>	<u>\$ 181,347</u>	<u>\$ 360,343</u>	<u>\$ 652,821</u>

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE I -- Endowment (Continued)

	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	<u>119,241</u>	<u>0</u>	<u>0</u>	<u>119,241</u>
Total funds	<u>\$ 119,241</u>	<u>\$ 220,401</u>	<u>\$ 350,343</u>	<u>\$ 689,985</u>

NOTE J -- Retirement plan

The organization has a SIMPLE IRA retirement plan that covers substantially all employees with at least one month of service. Pension expense totaled \$35,537 and \$34,086 for the years ended June 30, 2022 and 2021, 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 January 6, 2022 and was subsequently renewed and is due on January 6, 2023. The line of credit was collateralized by homeowner mortgages. No amounts have been drawn on this line of credit as of June 30, 2022.

The organization opened a \$2,872,000 line of credit with a financial institution at a minimum rate of 3.94% adjusted to the index rate of the "highest US Prime Rate published in the Wall Street Journal" minus .250 percentage points (4.50% as of June 30, 2022). The line of credit was to expire on September 1, 2022; however, it was extended and expires on December 1, 2022. The line of credit was collateralized by 502 Town Hall Drive, Sun Prairie, WI 53590. As of June 30, 2022 and 2021, respectively, \$2,347,575 and \$1,541,902 has been drawn on this line of credit.

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. Another change in terms agreement was executed on November 21, 2021 extending the line of credit expiration to December 21, 2021. The line of credit was collateralized by 502 Town Hall Drive, Sun Prairie, WI 53590. As of June 30, 2021, \$623,862 had been drawn on this line of credit. The line of credit was repaid in January 2022.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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 \$461 to \$17,084. 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 \$249,772 and \$234,138 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under these leases are as follows:

<u>Year ending June 30,</u>	
2023	\$ 255,607
2024	220,902
2025	202,971
2026	<u>461</u>
	<u>\$ 679,941</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, 2022

NOTE N -- Notes payable, net

Notes payable, net consist of the following:

	2022	2021
<p>One Community Bank (formerly known as McFarland State Bank); nonrecourse; monthly payments of \$5,020, including interest at 3.99% through November 30, 2021; monthly payments of \$4,027, including interest at 3.74% through November 26, 2026, and interest at the prime rate + 0.49% (no less than 3.75%) through maturity; due November 30, 2028; secured by a general business security agreement; prepayment is permitted in whole or in part subject to a prepayment premium.</p>	663,080	689,984
<p>Summit Credit Union; nonrecourse; monthly payments of \$8,211, including interest at 3.99%; collateralized by mortgages receivable; loan repaid in full on March 12, 2022.</p>	0	80,069
<p>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 \$96,529 and \$100,266 as of June 30, 2022 and 2021, respectively; interest expense totaled \$12,002 for each of the years ended June 30, 2022 and 2021.</p>	1,767,037	1,767,037
<p>Balance carried forward</p>	2,430,117	2,537,090

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE N -- Notes payable, net (Continued)

	2022	2021
Balance brought forward	\$ 2,430,117	\$ 2,537,090
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; loan was forgiven in full on November 5, 2021.	0	383,875
SBA; Economic Injury Disaster Loan (EIDL); original amount of \$160,000, additional proceeds of \$350,000, received in 2022; 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 \$2,227 beginning 24 months from the date of the original note (June 14, 2020) due June 14, 2050; collateralized by inventory, equipment, promissory notes, deposit accounts, general intangibles, etc.	508,919	160,000
	2,939,036	3,080,965
Less unamortized debt issuance costs	96,529	100,266
Less current maturities	36,221	91,719
	\$ 2,806,286	\$ 2,888,980

Repayment of principal on notes payable as of June 30, 2022, is as follows:

Year ending June 30,	
2023	\$ 36,221
2024	37,485
2025	38,728
2026	111,368
2027	649,017
Thereafter	2,066,217
	\$ 2,939,036

HABITAT FOR HUMANITY OF DANE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

NOTE O -- Related party transactions

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, 2022 and 2021, the amounts remitted totaled \$45,000 and \$30,000, respectively.

Habitat for Humanity International Inc. receives contributions on behalf of the organization. For the years ended June 30, 2022 and 2021, the amount of these contributions passed through to the organization from Habitat for Humanity International Inc. totaled \$58,598 and \$65,485, 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>2022</u>	<u>2021</u>
Subsequent years' operations	\$ 134,455	\$ 117,420
Time restriction on endowment earnings	<u>181,347</u>	<u>220,402</u>
	<u>\$ 315,802</u>	<u>\$ 337,822</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 \$927,343 and \$970,125 as of June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE R -- Letters of credit

As a requirement to develop the Renaissance on the Park, the organization was required by the City of Fitchburg to obtain a letter of credit to ensure completion of the 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.

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 obtained forgiveness of the PPP loan on November 5, 2021 and recognized the entire amount as a gain on forgiveness of debt in the statements of activities.

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.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

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:

	2022	2021
Cash	\$ 677,348	\$ 882,663
Accounts receivable	42,710	40,035
Unconditional promises to give	77,295	34,211
Mortgages receivable	1,016,316	946,386
	\$ 1,762,971	\$ 1,978,295

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, 2022 and 2021, the organization obtained \$330,000 and \$318,300, 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 \$2,096,662 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 for each of the fiscal years ended June 30, 2022 and 2021, and totaling \$439,800 since 2016. These loans are forgiven over five years and benefit both the homeowner and the organization.

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE V -- CDFI grants

In January 2021, the organization was awarded a \$650,000 grant from the CDFI. Of this amount, \$215,000 and \$220,000 was received during the fiscal years ended June 30, 2022 and 2021, respectively. 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. For the fiscal year ended June 30, 2022, \$256,875 was recognized as contribution revenue and \$8,413 is included in grants receivable on the statement of financial position.

On August 5, 2021, the organization was awarded a \$200,000 grant for operations under the CDFI Rapid Response Program. The grant conditions were met and the full amount was recognized as contribution revenue for the fiscal year ended June 30, 2022.

NOTE W -- Subsequent events

Building purchase

On July 28, 2022, the organization purchased a 45,000 square foot building for \$3 million. It is the organization's intent to re-locate its West ReStore, corporate headquarters, and warehouses to this new space. In connection with this building purchase, the organization entered into a promissory note with One Community Bank in the amount of \$576,500 on July 28, 2022. The proceeds of this note were used as part of the down payment for the building purchase. The note requires monthly payments of \$4,119, including interest at 5.24%, beginning August 28, 2022 through maturity (July 28, 2027).

Warehouse sale

On August 3, 2022, the organization received an offer to purchase for one of its warehouses for \$215,000. Closing is anticipated to occur on or before November 30, 2022.

Office building sale

On October 5, 2022, the organization received an offer to purchase its office building for \$585,000. Closing is anticipated to occur on December 28, 2022.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
SCHEDULE OF REVENUE AND EXPENSES BY FUNDING SOURCE
Year ended June 30, 2022

	City of Madison		Total
	CDD	Other	
PUBLIC SUPPORT, REVENUE AND GAINS			
Revenue on sale of completed homes and lots	\$ 0	\$ 3,538,625	\$ 3,538,625
ReStore sales less cost of goods sold of \$2,151,065	0	74,583	74,583
Mortgage discount amortization	0	347,175	347,175
Program services	12,855	489,704	502,559
Agency endowment return	0	(4,357)	(4,357)
Gifts and donations	0	1,317,304	1,317,304
In-kind contributions	0	2,394,321	2,394,321
Special events	0	31,624	31,624
Interest	0	13,048	13,048
Gain on extinguishment of debt	0	383,875	383,875
Miscellaneous income	0	24,296	24,296
Total public support, revenue and gains	12,855	8,610,198	8,623,053
Expenses:			
Program services:			
Homebuilding	12,855	6,341,723	6,354,578
ReStore	0	1,466,278	1,466,278
Total program services	12,855	7,808,001	7,820,856
Supporting services:			
Management and general	0	250,629	250,629
Fundraising	0	511,446	511,446
Total supporting services	0	762,075	762,075
Total expenses	12,855	8,570,076	8,582,931
Restricted contributions	0	67,950	67,950
Restricted agency endowment return	0	(20,857)	(20,857)
Excess revenue (expense)	\$ 0	\$ 87,215	\$ 87,215

HABITAT FOR HUMANITY OF DANE COUNTY, INC.
SCHEDULE OF CITY OF MADISON DEVELOPMENT DIVISION FUNDS EXPENDED BY PROGRAM
Year ended June 30, 2022

CDD OFFICE FUNDS	
CDD Acquisition Funds	\$ 12,855
FUNDS EXPENDED	
Property developer costs	<u>12,855</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, 2022

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

