

# Milwaukee Habitat for Humanity, Inc. and Subsidiary

Financial Report

June 30, 2020

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Milwaukee Habitat for Humanity, Inc. and Subsidiary  
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Milwaukee Habitat for Humanity, Inc. and Subsidiary, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milwaukee Habitat for Humanity, Inc. and Subsidiary as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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

*SVA Certified Public Accountants, S.C.*

Madison, Wisconsin

October 19, 2020

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Cash and cash equivalents	\$ 3,201,910	\$ 2,940,125
Cash and cash equivalents - designated for loan recourse	508,400	516,100
	3,710,310	3,456,225
Total cash and cash equivalents		
Accounts receivable	16,816	16,816
Unconditional promises to give, short-term	613,697	396,272
Current maturities of loans receivable - home preservation	1,744	5,000
Homeowners' escrow receivable	110,152	114,920
Current maturities of mortgage notes receivable	737,000	766,000
Prepaid expenses	40,376	56,797
Warehouse and ReStore inventory	393,415	489,283
	5,623,510	5,301,313
Total current assets		
<b>RESTRICTED ASSETS</b>		
Homeowners' escrow	3,937	3,164
Restricted cash - special projects	87,403	98,605
New markets tax credit restricted cash	67,464	80,269
	158,804	182,038
Total restricted assets		
<b>OTHER ASSETS</b>		
New markets tax credit - investments	1,335,241	2,765,241
New markets tax credit - other asset/guaranty fee	71,235	89,899
Inventory of properties, net of valuation allowance of \$662,000 and \$447,000 as of June 30, 2020 and 2019, respectively	2,630,602	1,728,979
Unconditional promises to give, net, long-term	605,774	115,861
Mortgage notes receivable, net of allowance for doubtful accounts of \$55,000 and \$76,000 as of June 30, 2020 and 2019, respectively	3,522,489	4,434,787
Loans receivable - home preservation, less current maturities	0	1,688
Loans receivable - bridge loan program	6,515	6,632
Loans receivable - critical home repair program	311,979	61,150
Property and equipment, net	1,889,286	1,540,156
Website development costs, net	14,939	18,880
Land held for investment	393,329	393,329
	10,781,389	11,156,602
Total other assets		
<b>TOTAL ASSETS</b>	<b>\$ 16,563,703</b>	<b>\$ 16,639,953</b>

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

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**

STATEMENTS OF FINANCIAL POSITION (Continued)

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 151,695	\$ 292,662
Current maturities of notes payable	53,747	58,488
Accrued expenses	90,695	223,820
Deferred revenue, new markets tax credit	67,464	84,094
Deferred revenue, other	25,500	32,650
	<u>389,101</u>	<u>691,714</u>
Total current liabilities	389,101	691,714
<b>LONG-TERM LIABILITIES</b>		
Notes payable, less current maturities	719,291	243,277
Loans payable, net	1,818,777	3,679,681
	<u>2,538,068</u>	<u>3,922,958</u>
Total long-term liabilities	2,538,068	3,922,958
<b>TOTAL LIABILITIES</b>	2,927,169	4,614,672
<b>NET ASSETS</b>		
Net assets without donor restrictions	12,281,434	11,400,404
Net assets with donor restrictions	1,355,100	624,877
	<u>13,636,534</u>	<u>12,025,281</u>
Total net assets	13,636,534	12,025,281
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 16,563,703</u>	<u>\$ 16,639,953</u>

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

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Changes in net assets:			
Public support, revenue and gains:			
Contributions	\$ 1,791,556	\$ 1,255,023	\$ 3,046,579
Grant Income	519,685	0	519,685
Donated goods and services	355,315	0	355,315
Special events	513,174	0	513,174
Late fee income	10,449	0	10,449
Sale of properties	1,570,248	0	1,570,248
Net realizable value adjustment - inventory of properties	(215,000)	0	(215,000)
Mortgage discount amortization	451,907	0	451,907
Investment income, net	490,051	0	490,051
ReStore retail sales	2,256,170	0	2,256,170
ReStore donations, in-kind	1,893,918	0	1,893,918
Gain on sale of property and equipment	0	0	0
Loss on sale of mortgage notes receivable	0	0	0
Critical home repairs income	308,324	0	308,324
Miscellaneous	217,787	0	217,787
Net assets released from restrictions	524,800	(524,800)	0
Total public support, revenue and gains	10,688,384	730,223	11,418,607
Expenses:			
Program services:			
Homebuilding	4,641,972	0	4,641,972
ReStore	4,044,130	0	4,044,130
Total program services	8,686,102	0	8,686,102
Supporting services:			
Management and general	533,765	0	533,765
Fundraising	587,487	0	587,487
Total supporting services	1,121,252	0	1,121,252
Total expenses	9,807,354	0	9,807,354
Change in net assets	881,030	730,223	1,611,253
Net assets, beginning	11,400,404	624,877	12,025,281
Net assets, ending	<u>\$ 12,281,434</u>	<u>\$ 1,355,100</u>	<u>\$ 13,636,534</u>

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

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Changes in net assets:			
Public support, revenue and gains:			
Contributions	\$ 1,861,018	\$ 423,917	\$ 2,284,935
Grant Income	18,001	0	18,001
Donated goods and services	422,390	0	422,390
Special events	423,119	0	423,119
Late fee income	13,635	0	13,635
Sale of properties	1,973,220	0	1,973,220
Net realizable value adjustment - inventory of properties	(107,000)	0	(107,000)
Mortgage discount amortization	809,677	0	809,677
Investment income	34,227	0	34,227
ReStore retail sales	2,549,509	0	2,549,509
ReStore donations, in-kind	2,552,252	0	2,552,252
Gain on sale of property and equipment	14,182	0	14,182
Loss on sale of mortgage notes receivable	(49,649)	0	(49,649)
Critical home repairs income	53,490	0	53,490
Miscellaneous	84,583	0	84,583
Net assets released from restrictions	550,276	(550,276)	0
Total public support, revenue and gains	11,202,930	(126,359)	11,076,571
Expenses:			
Program services:			
Homebuilding	4,752,996	0	4,752,996
ReStore	4,303,905	0	4,303,905
Total program services	9,056,901	0	9,056,901
Supporting services:			
Management and general	470,323	0	470,323
Fundraising	514,923	0	514,923
Total supporting services	985,246	0	985,246
Total expenses	10,042,147	0	10,042,147
Change in net assets	1,160,783	(126,359)	1,034,424
Net assets, beginning	10,239,621	751,236	10,990,857
Net assets, ending	<u>\$ 11,400,404</u>	<u>\$ 624,877</u>	<u>\$ 12,025,281</u>

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



**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2020

	Program services			Supporting services			Total expenses
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Salaries, payroll taxes and fringe benefits	\$ 916,183	\$ 918,141	\$ 1,834,324	\$ 387,988	\$ 348,375	\$ 736,363	\$ 2,570,687
Professional fees	22,874	306,320	329,194	0	0	0	329,194
Insurance	15,758	230,695	246,453	41,196	2,746	43,942	290,395
Staff travel and development	13,807	7,262	21,069	7,101	5,439	12,540	33,609
Occupancy	544,401	123,785	668,186	14,563	7,281	21,844	690,030
Audit/accounting	0	0	0	25,300	0	25,300	25,300
Office supplies	3,690	2,728	6,418	4,394	483	4,877	11,295
Printing and publications	1,408	1,570	2,978	3,033	14,021	17,054	20,032
Telephone	21,271	26,693	47,964	1,800	1,500	3,300	51,264
Equipment/maintenance	3,545	7,673	11,218	1,005	457	1,462	12,680
Database management	15,417	40,166	55,583	8,033	5,355	13,388	68,971
Completed project costs/cost of sales on properties	0	2,472,084	2,472,084	0	0	0	2,472,084
ReStore cost of sales	1,956,000	0	1,956,000	0	0	0	1,956,000
Volunteer expenses	6,786	17,346	24,132	0	0	0	24,132
Special events	111	3,942	4,053	0	353	353	4,406
Promotions and advertising	59,586	4,371	63,957	251	18,592	18,843	82,800
Interest expense	0	16,857	16,857	17,554	0	17,554	34,411
Bank and credit card fees	43,077	0	43,077	2,676	24,081	26,757	69,834
Sales tax	111,924	0	111,924	0	0	0	111,924
AmeriCorps	0	135,810	135,810	0	0	0	135,810
Depreciation	56,508	63,595	120,103	649	649	1,298	121,401
Postage and shipping	232	5,457	5,689	1,091	4,365	5,456	11,145
Fundraising	0	0	0	0	152,747	152,747	152,747
Cost of goods sold	248,367	0	248,367	0	0	0	248,367
Miscellaneous	3,185	27,512	30,697	17,131	1,043	18,174	48,871
National affiliate/Global Village	0	229,965	229,965	0	0	0	229,965
<b>Total expenses</b>	<b>\$ 4,044,130</b>	<b>\$ 4,641,972</b>	<b>\$ 8,686,102</b>	<b>\$ 533,765</b>	<b>\$ 587,487</b>	<b>\$ 1,121,252</b>	<b>\$ 9,807,354</b>

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

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2019

	Program services			Supporting services			Total expenses
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Salaries, payroll taxes and fringe benefits	\$ 975,299	\$ 922,242	\$ 1,897,541	\$ 346,984	\$ 299,828	\$ 646,812	\$ 2,544,353
Professional fees	25,000	316,190	341,190	0	0	0	341,190
Insurance	1,485	153,172	154,657	27,352	1,823	29,175	183,832
Staff travel and development	16,034	13,469	29,503	15,543	6,369	21,912	51,415
Occupancy	493,157	104,612	597,769	12,307	6,154	18,461	616,230
Audit/accounting	0	0	0	21,600	0	21,600	21,600
Office supplies	7,258	3,230	10,488	3,528	913	4,441	14,929
Printing and publications	2,220	1,133	3,353	4,650	13,235	17,885	21,238
Telephone	31,272	24,763	56,035	1,669	1,391	3,060	59,095
Equipment/maintenance	3,841	6,506	10,347	852	387	1,239	11,586
Database management	23,029	42,874	65,903	8,574	5,716	14,290	80,193
Completed project costs/cost of sales on properties	0	2,549,654	2,549,654	0	0	0	2,549,654
ReStore cost of sales	2,377,000	0	2,377,000	0	0	0	2,377,000
Volunteer expenses	12,058	8,596	20,654	0	0	0	20,654
Special events	523	334	857	3,032	927	3,959	4,816
Promotions and advertising	52,658	2,183	54,841	224	20,951	21,175	76,016
Interest expense	11,151	34,586	45,737	2,190	0	2,190	47,927
Bank and credit card fees	33,096	8,235	41,331	1,685	15,162	16,847	58,178
Sales tax	132,489	0	132,489	0	0	0	132,489
AmeriCorps	2,000	114,012	116,012	0	0	0	116,012
Depreciation	77,905	70,412	148,317	761	762	1,523	149,840
Postage and shipping	246	3,674	3,920	735	2,939	3,674	7,594
Fundraising	0	0	0	0	137,394	137,394	137,394
Bad debt expense	0	0	0	0	0	0	0
Cost of goods sold	23,260	0	23,260	0	0	0	23,260
Miscellaneous	2,924	51,227	54,151	18,637	972	19,609	73,760
National Affiliate/Global Village	0	321,892	321,892	0	0	0	321,892
<b>Total expenses</b>	<b>\$ 4,303,905</b>	<b>\$ 4,752,996</b>	<b>\$ 9,056,901</b>	<b>\$ 470,323</b>	<b>\$ 514,923</b>	<b>\$ 985,246</b>	<b>\$ 10,042,147</b>

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

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

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,611,253	\$ 1,034,424
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for doubtful accounts	(21,000)	(39,000)
Depreciation	121,401	149,840
Overstated depreciation from prior years included in miscellaneous income	(138,192)	0
Amortization of debt issuance costs	19,096	8,852
Mortgage discount amortization	(451,907)	(809,677)
Loss on sale of mortgage notes receivable	0	49,649
Gain on sale of property and equipment	0	(14,182)
Gain on investments in new markets tax credit	(450,000)	0
Valuation allowance for loss on homes	215,000	107,000
Increase (decrease) in cash due to changes in:		
Accounts receivable	0	(7,190)
Unconditional promises to give	(707,338)	139,961
Escrow receivable	4,768	(16,879)
Prepaid expenses	16,421	(9,294)
Inventory	(1,254,094)	(1,817,058)
New markets tax credit - other asset/guaranty fee	18,664	(55,773)
Accounts payable	(140,967)	49,991
Accrued expenses	(133,125)	111,307
Deferred revenue	(23,780)	78,074
Net cash used in operating activities	(1,313,800)	(1,039,955)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(328,398)	(42,395)
Purchase of website development costs	0	(19,700)
Collections on mortgage notes receivable	878,130	911,849
Collections on home preservation loans receivable	4,944	4,967
Collections on bridge loans receivable	117	403
Issuance of critical home repair loans receivables	(250,829)	(37,786)
Proceeds from sale of property and equipment	0	14,182
Proceeds from sale of mortgage notes	769,414	995,152
Investments in new markets tax credit	0	(1,335,241)
Net cash provided by investing activities	1,073,378	491,431
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes payable	517,282	80,000
Principal payments on notes payable	(46,009)	(638,821)
Proceeds from issuance of loans payable	0	1,918,494
Payment of debt issuance costs	0	(106,208)
Net cash provided by financing activities	471,273	1,253,465

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## STATEMENTS OF CASH FLOWS (Continued)

Years ended June 30, 2020 and 2019

	2020	2019
Change in cash, cash equivalents, and restricted cash	\$ 230,851	\$ 704,941
Cash, cash equivalents, and restricted cash:		
Beginning	3,638,263	2,933,322
Ending	\$ 3,869,114	\$ 3,638,263
 <b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 3,710,310	\$ 3,456,225
Restricted cash	158,804	182,038
Total cash, cash equivalents, and restricted cash	\$ 3,869,114	\$ 3,638,263
 <b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 15,316	\$ 41,459
 <b>SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Issuance of mortgage notes receivable for sale of houses	\$ 233,339	\$ 957,798
Closing of new markets tax credit loan payable due to the put option being exercised	\$ 1,880,000	\$ 0
Closing of new markets tax credit investment due to the put option being exercised	\$ 1,430,000	\$ 0

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### **Nature of business**

Milwaukee Habitat for Humanity, Inc. (MHFH) is a nonprofit charitable corporation organized to solicit funds and materials from various sources for the purpose of sponsoring new construction or rehabilitation of affordable homes in the Greater Milwaukee community. MHFH sells these homes to individuals who would not, because of income level, qualify for a mortgage from a lending institution, offering affordable mortgages to qualified applicants who have put in significant hours of work into the construction of the home they are purchasing.

The Milwaukee Habitat ReStores recycle overstocked, discontinued, new, or used building materials, furniture, appliances and other supplies donated by manufacturers, stores, contractors, and individuals. These donated items are sold to the public, and income generated from the ReStores is used to support the programs and initiatives of MHFH.

On July 23, 2019, MHFH formed a wholly-owned, single-member limited liability company, Empower Investments, LLC (Empower). Empower was formed to develop and market residential real estate, acting at all times consistently with the basic nonprofit charitable mission of MHFH.

MHFH and Empower are collectively referred to herein as “the organization”.

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.

#### **Consolidation policy**

The financial statements include the accounts of MHFH and its wholly-owned subsidiary, Empower. All material intercompany accounts and transactions are eliminated in consolidation.

#### **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.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### **Exempt status**

MHFH is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. MHFH is also exempt from state income taxes. MHFH believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Empower is a limited liability company wholly owned by MHFH. For income tax purposes, the company is considered a disregarded entity whose assets, liabilities, and income are reported on MHFH's information return.

#### **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.

#### **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.

#### **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.

#### **Inventories**

The warehouse inventory consists of donated items which will be used in construction. This inventory has been valued at the estimated net realizable value of the inventory on hand at year-end. ReStore inventory consists of donated items or items purchased by the organization for sale within the ReStores. These items 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.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### Inventory of properties

Inventory of properties consists of single family homes valued based on the lower of cost or net realizable value as follows:

	<u>2020</u>	<u>2019</u>
Completed homes	\$ 194,206	\$ 366,316
Homes under construction	3,098,396	1,809,663
Valuation allowance	<u>(662,000)</u>	<u>(447,000)</u>
	<u>\$ 2,630,602</u>	<u>\$ 1,728,979</u>

#### Mortgages receivable

In furtherance of its charitable purpose, the organization sells the homes it builds and rehabilitates to qualified applicants for affordable rate 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. Scheduled mortgage payments range from \$100 to \$800 per month with maturities ranging from 20 to 30 years. Management provides an allowance for doubtful mortgage notes receivable based on an assessment of historical collectability, the status of individual mortgage notes, and the value of the collateral. One past due mortgage payment initiates delinquent status of a note and results in the organization initiating collection procedures in accordance with the organization's policies.

#### Loans receivable

In furtherance of its charitable purpose, the organization issues noninterest-bearing loans to homeowners to repair, weatherize, and preserve homeowner-occupied homes. The value of these loans is then discounted to give the organization credit for the value of interest not being charged to homeowners. Management believes all amounts outstanding are collectable, and as such, has not provided an allowance for uncollectable loans receivable.

#### New Markets Tax Credit (NMTC) – investments in nonmarketable equity securities

The organization has non-controlling investments in limited liability companies with other Habitat for Humanity affiliates to take advantage of the NMTC program. The organization has elected to measure investments 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 O). Previously, these equity investments were recorded at cost.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### Property and equipment

Property and equipment is stated at cost. Depreciation of property and equipment is computed by the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Buildings	20
Building improvements	15 - 40
Equipment	5 - 10
Vehicles	5
Computer equipment	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.

#### Capitalization policy

The organization's policy is to capitalize property and equipment with a unit cost in excess of \$5,000 and a useful life of at least three years.

#### 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.

#### Deferred revenue, NMTC

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

#### Debt issuance costs

In August 2018, the organization incurred closing costs and structuring fees related to the NMTC financing (see Note I). Debt issuance costs were \$106,208 as of June 30, 2020 and 2019, and are being amortized on the straight-line method over 360 months, the life of the loan.

In 2013, the organization incurred closing costs related to the NMTC financing (see Note I). Debt issuance costs were \$0 and \$27,151 as of June 30, 2020 and 2019, respectively. The unamortized portion of the debt issuance costs of \$15,555 associated with the mortgage note was written off for the year ended June 30, 2020 and is included in interest expense.

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 \$19,096 and \$8,852 for the years ended June 30, 2020 and 2019, respectively.



# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### **Revenue recognition**

Revenue from all new construction activities is recognized upon the closing of the sale of a property. 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.

ReStore sales are recorded as revenue at the time of the sale. Other revenue is recognized when earned by the organization.

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.

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.

#### **Donated goods and services**

The organization receives donated goods for use in home rehabilitation and for sale at the ReStore. The organization has elected to value goods at the estimated fair market value. In-kind donated goods, including ReStore donations, for the years ended June 30, 2020 or 2019 totaled \$2,071,940 and \$2,809,424, respectively.

Donated services are reflected as contributions and expenses in the accompanying statements of activities when the services require some level of expertise. The organization received donated legal services relating to property acquisitions and closings for the homebuilding program and totaled \$177,293 and \$165,218 for the years ended June 30, 2020 or 2019, respectively. The organization received donated services from volunteers who assisted in the construction of the homes and other services from volunteers that do not require a specialized skill. No amounts have been reflected in the financial statements for these donated services since the value cannot be quantified by management.

#### **Expense allocation**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Each employee of the organization works in a primary program area. Salaries and benefits are allocated on the basis of actual time reported in programs or supporting functions. Occupancy costs, insurance and depreciation are allocated on a square footage basis. Other non-personnel expenses are attributed to individual programs or supporting functions. 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.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

#### Advertising

All advertising costs are expensed as incurred. Advertising costs totaled \$82,800 and \$76,016 for the years ended June 30, 2020 and 2019, respectively.

#### New accounting standards adopted

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

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

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

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020 and retrospectively apply the amendments to all periods presented. As a result, net cash provided by investing activities previously reported increased \$83,392 for the year ended June 30, 2019 to exclude the change in restricted cash.

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

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

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

### **Reclassifications**

Some items in the 2019 financial statements have been reclassified to be consistent with the current year's presentation. Land of \$623,597 was reclassified from buildings in Note G.

### **Subsequent events**

These financial statements have not been updated for subsequent events occurring after October 19, 2020, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

### NOTE B -- Investment income, net

The organization's net investment income is as follows:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 26,740	\$ 8,501
Interest on NMTC investments	13,311	25,726
Gain on investment in NMTC	<u>450,000</u>	<u>0</u>
	<u>\$ 490,051</u>	<u>\$ 34,227</u>

### NOTE C -- Mortgage notes receivable

The balance of mortgage notes receivable as of June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Gross mortgage notes receivable	\$ 8,726,199	\$ 10,140,404
Less: unamortized mortgage discounts	(4,411,710)	(4,863,617)
Less: allowance for doubtful mortgage notes	<u>(55,000)</u>	<u>(76,000)</u>
Net mortgage notes receivable	4,259,489	5,200,787
Less: current portion of mortgage notes receivable	<u>(737,000)</u>	<u>(766,000)</u>
Net mortgage notes receivable, less current maturities	<u>\$ 3,522,489</u>	<u>\$ 4,434,787</u>

The unamortized discount is the difference between the face amount of the mortgage notes and their present value discounted at a compound interest amount. The discount rates used were 7.38% and 7.66% in 2020 and 2019, respectively, which represent an approximate independent lender rate as provided by Habitat for Humanity International.

The discount is amortized over the life of the notes using the interest method. Collections of gross mortgage notes receivable are expected to be approximately \$740,000 for each of the next five years, with maturities through 2045.

### NOTE D -- Credit quality of mortgage notes receivable

The organization provides affordable mortgage notes to partner families. These notes are collateralized by the real estate produced by the organization. Allowances for doubtful accounts are established based on prior collection experience, repayment agreements, value of collateral, and current economic factors which, in management's judgment, could influence the ability of the partner families to repay the notes per the terms. As of June 30, 2020 and 2019, mortgages represented 26% and 31% of total assets, respectively.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

### NOTE D -- Credit quality of mortgage notes receivable (Continued)

The balance of the allowance for doubtful accounts at June 30 is as follows:

	2020	2019
Beginning of year	\$ 76,000	\$ 115,000
Decreases	(21,000)	(39,000)
End of year	\$ 55,000	\$ 76,000

The credit quality indicator is based on days delinquent.

As of June 30, 2020, the following mortgages and amounts were considered past due:

	Number of delinquent mortgages	Principal balance
30 - 59 days	13	\$ 448,433
60 - 89 days	8	126,474
90 - 119 days	2	32,657
Over 120 days	39	1,232,878

As of June 30, 2019, the following mortgages and amounts were considered past due:

	Number of delinquent mortgages	Principal balance
30 - 59 days	10	\$ 431,247
60 - 89 days	10	372,028
90 - 119 days	3	60,300
Over 120 days	50	1,440,259

### NOTE E -- Unconditional promises to give

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

	2020	2019
Unconditional promises to give	\$ 1,267,697	\$ 526,272
Less: present value discount	48,226	14,139
Net unconditional promises to give	1,219,471	512,133
Less: unconditional promises to give in one to five years	605,774	115,861
Unconditional promises to give in less than one year	\$ 613,697	\$ 396,272

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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### NOTE E -- Unconditional promises to give (Continued)

Unconditional promises to give in less than one year are measured at net realizable value which approximates fair value. Unconditional promises to give expected to be received after one year were discounted at a rate of 4.66% and 5.39% as of June 30, 2020 and 2019, respectively.

### NOTE F -- Designated and restricted assets

#### Homeowners' escrow

The organization is required to collect monthly escrow deposits from the homeowners for real estate taxes and insurance, and pays the respective bills when due. Homeowners' escrow receivables at June 30, 2020 and 2019 were \$110,152 and \$114,920, respectively.

#### Special projects

The organization receives contributions from donors that are restricted for specific purposes. Detailed information on the specific purposes is found in Note K.

#### Loan recourse

The organization designated a percentage of proceeds received from mortgages sold to third party lenders where the organization retains recourse. Cash and cash equivalents designated for loan recourse were \$508,400 and \$516,100 as of June 30, 2020 and 2019, respectively. These funds are considered board designated.

#### NMTC – restricted cash

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

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

Property and equipment, net is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 623,597	\$ 623,597
Buildings	997,894	997,894
Building improvements	810,933	523,053
Vehicles	116,845	117,338
Equipment	80,682	86,461
Computer equipment	<u>103,233</u>	<u>83,614</u>
	2,733,184	2,431,957
Less accumulated depreciation	<u>843,898</u>	<u>891,801</u>
	<u>\$ 1,889,286</u>	<u>\$ 1,540,156</u>

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
NOTES TO FINANCIAL STATEMENTS  
Year ended June 30, 2020

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**NOTE H -- Notes payable**

Notes payable consist of the following:

	2020	2019
Noninterest-bearing notes payable to Habitat for Humanity International, Inc.; due in monthly payments ranging from \$338 to \$1,250; maturing no later than January 1, 2026; the notes are uncollateralized.	\$ 80,478	\$ 77,625
Noninterest-bearing note payable to Wisconsin Housing and Economic Development Authority; secured by residential real estate with monthly payments of \$229 and a final payment due July 2024.	12,026	14,776
Unsecured notes payable to Neighborhood Improvement Development Corp.; due in monthly payments ranging from \$317 to \$957; maturing December 31, 2029; the notes bear interest at a rate of 1%.	186,134	209,364
Town Bank; Paycheck Protection Program loan through the Small Business Administration (See Note Q); original amount of \$494,400 including interest at 1%; no payments due until the earlier of forgiveness or 10 months after the expiration of the organization's covered period (which can be no later than December 31, 2020); due April 15, 2022; portion of loan can be forgiven; no collateral required.	494,400	0
	773,038	301,765
Less current maturities	53,747	58,488
	\$ 719,291	\$ 243,277

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

Year ending June 30,	
2021	\$ 53,747
2022	536,921
2023	41,042
2024	40,908
2025	23,972
Thereafter	76,448
	\$ 773,038

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

### NOTE I -- Loans payable, net

Loans payable, net consist of the following:

	2020	2019
<p>CCM Community Development XXVII, LLC (see Note O); nonrecourse; semi-annual interest only payments until 2020 at .7608%; semi-annual payments of \$121,335, including interest at .7608%, are due starting November 10, 2020 through the maturity date of July 25, 2028; secured by a loan agreement, deposit account control and pledge agreement, reserve account control and pledge agreement; prepayment is not permitted until after August 31, 2020 and then is permitted in whole or in part without penalty; community development entity (CDE) waived the debt in September 2019 as the put option on the investment in the CDE was exercised; unamortized debt issuance costs associated with this note was \$0 and \$15,555 as of June 30, 2020 and 2019, respectively; interest expense totaled \$0 and \$14,303 for the years ended June 30, 2020 and 2019, respectively.</p>	\$	0
<p>HFHI NMTC SUB-CDE III, LLC (see Note O); nonrecourse; semi-annual interest only payments until 2025 at .694151%; semi-annual payments of \$44,309, including interest at .694151%, are due starting November 5, 2025 through the maturity date of August 22, 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 August 2025 so as to participate in the NMTC program; prepayment is not permitted until after August 22, 2025 and then is permitted in whole or in part without penalty; unamortized debt issuance costs associated with this note was \$99,717 and \$103,258 as of June 30, 2020 and 2019, respectively; interest expense totaled \$13,316 and \$11,431 for the years ended June 30, 2020 and 2019, respectively.</p>	1,918,494	1,918,494
<p>Less unamortized debt issuance costs</p>	<p style="margin-left: 20px;">1,918,494</p> <p style="margin-left: 20px;">99,717</p>	<p style="margin-left: 20px;">3,798,494</p> <p style="margin-left: 20px;">118,813</p>
	\$ 1,818,777	\$ 3,679,681



**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
 NOTES TO FINANCIAL STATEMENTS  
 Year ended June 30, 2020

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**NOTE I -- Loans payable, net (Continued)**

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

Year ending June 30,

2021	\$	0
2022		0
2023		0
2024		0
2025		0
Thereafter		<u>1,918,494</u>
		<u>\$ 1,918,494</u>

**NOTE J -- Line of credit**

The organization has a \$500,000 unsecured line of credit. There were no amounts outstanding on the line at June 30, 2020 and 2019. The interest rate is variable based on the 1-month LIBOR rate plus 3% (3.16% and 5.40% as of June 30, 2020 and 2019, respectively). The line of credit expires on February 17, 2021.

**NOTE K -- Net assets with donor restrictions**

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

	<u>2020</u>	<u>2019</u>
Internship program	\$ 635	\$ 26,517
Harambee Neighborhood	0	1,000
Foreclosure Prevention Program	0	8,268
Air conditioners	36,417	42,370
Rock the Block 2019	0	15,000
Trailer for construction	0	5,450
Time restrictions on unconditional promises to give	1,267,697	526,272
Warehouse and construction tools	34,151	0
Projects at RW & RS	2,500	0
Solar panels for 651 and 652	5,400	0
Waukesha City Community Foundation - door	<u>8,300</u>	<u>0</u>
	<u>\$ 1,355,100</u>	<u>\$ 624,877</u>

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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### NOTE L -- Operating leases

The organization has an operating lease with a third party for the West ReStore location. The lease requires monthly payments ranging from \$8,559 to \$9,834 and expires in March 2022. In addition to the monthly rent expense the lease requires payments for common area maintenance (CAM) expenses and property taxes that will vary month to month. Total expense under the lease for the years ended June 30, 2020 and 2019, totaled \$149,879 and \$149,047, respectively.

The organization also has an operating lease with a third party for the East ReStore location. The lease requires monthly lease payments ranging from \$4,763 to \$5,053 and expires in October 2020. In addition to the monthly rent expense, the lease requires payments for CAMs, property taxes, and utilities that will vary month to month. Total expense under the lease for the years ended June 30, 2020 and 2019, totaled \$111,755 and \$109,580, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2021	\$	134,417
2022		<u>87,550</u>
	\$	<u>221,967</u>

### NOTE M -- Related party transactions

With respect for and in support of Habitat for Humanity International Inc., the organization voluntarily provides a tithe of the undesignated public support it received in the prior year. This is used by the international organization for providing housing for the poor around the world. For the years ended June 30, 2020 and 2019, the amount of the tithe expense totaled \$228,000 and \$316,201, respectively.

Habitat for Humanity International Inc. receives contributions on behalf of the organization. For the years ended June 30, 2020 and 2019, the amount of these contributions passed through to the organization from Habitat for Humanity International Inc. totaled \$179,180 and \$170,878, respectively.

### NOTE N -- Defined contribution retirement plan

The organization participates in a defined contribution, individual account retirement plan covering all eligible employees. The organization makes contributions to the plan based on \$1,000 per employee. Plan expense was \$37,031 and \$37,753 for years ended June 30, 2020 and 2019, respectively.

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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### **NOTE O -- NMTC investments**

#### **Investment in CCML Leverage II, LLC**

The organization participated in a NMTC program which provides funds to eligible organizations for investment in qualified low-income community investment. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. Program compliance requirements must be met over a seven-year period. Tax credit recapture is required if compliance requirements are not met.

The organization invested, along with ten other Habitat affiliates, in a joint venture, CCML Leverage II, LLC, (the Leveraged Lender) with 9.083% ownership to take advantage of NMTC financing. The Leveraged Lender made a loan to the CCM CD 27 Investment Fund, LLC (the Investment Fund). The Investment Fund is owned by a tax credit investor. The tax credit investor invested an amount into the Investment Fund equal to the market rate of the tax credits held by the qualified CDE. The Investment Fund made a qualified equity investment in the CDE and became 99.99% owner of the CDE, and the related tax credits. The CDE made a loan back to the organization to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

As a result, the organization has invested \$1,430,000 in the joint venture. The CDE provided a loan of \$1,880,000 to the organization. The loan accrues monthly interest-only for years one through seven at a reduced rate of .7608%. Through the organization's ownership in the Leveraged Lender, 99.99% of the interest payments made by the organization to the CDE are returned to the organization on the same day. Beginning in year eight through year 15, the principal balance of the loan is reduced by an eight-year amortization at the same rate of .7608%.

In September 2019, the Investment Fund exercised its put option on the investment in the CDE. Under the terms of the put option agreement, the Investment Fund puts its interest in the CDE to the Leveraged Lender for \$1,000. Exercise of the option allows the organization to own their notes to the CDE, and therefore, extinguish its outstanding notes owed to the CDE. In connection with this transaction, the organization has recorded a gain on investment totaling \$450,000 and \$0 for the years ending June 30, 2020 and 2019, respectively.

#### **Investment in HFHI NMTC Leverage Lender 2018, LLC**

The organization, along with other Habitat 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 CDEs.

In August 2018, the organization invested \$1,335,242 in HFHI NMTC Leverage Lender 2018, LLC consisting of cash and qualified investment properties. This investment represents an 8.84% ownership. HFHI NMTC Leverage Lender 2018, LLC contributed its combined resources to Twain Investment Fund 306, LLC (Investment Fund 2) which received additional investment from U.S. Bancorp Community Development Corporation (Bank) as the federal tax credit investor under the NMTC program.

**MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY**  
NOTES TO FINANCIAL STATEMENTS  
Year ended June 30, 2020

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**NOTE O -- NMTC investments (Continued)**

As part of the NMTC program, the Investment Fund 2 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 \$1,918,494 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 .694151%. 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 2 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 loan from the CDE is the Bank through its participation in the Investment Fund 2. 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. 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 2. Exercise of the option will effectively allow the organization to extinguish its outstanding debt owed to the Bank.

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

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

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

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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

The organization receives contributions with donor restrictions to be used in accordance with the associated purpose or time restriction. 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, its policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the organization can draw upon \$500,000 of the available line of credit (as further discussed in Note J).

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,201,910	\$ 2,940,125
Accounts receivable	16,816	16,816
Unconditional promises to give	613,697	396,272
Loan receivable	1,744	5,000
Mortgage notes receivable	737,000	766,000
Escrow receivable	<u>110,152</u>	<u>114,920</u>
Financial assets available within one year	<u>\$ 4,681,319</u>	<u>\$ 4,239,133</u>

### NOTE Q -- Commitments and contingencies

#### Uncertainty

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

# MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2020

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### **NOTE Q -- Commitments and contingencies (Continued)**

#### **Paycheck Protection Program**

On April 15, 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 \$494,400 (the "PPP Loan"). The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the organization. The organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in December 2020 principal and interest payments will be required through the maturity date in April 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.