Milwaukee Habitat for Humanity, Inc. and Subsidiary

Financial Report

June 30, 2021

SVA® Certified Public Accountants, S.C.
Tax, Audit and Business Strategy

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

C O N T E N T S

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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 consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated 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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2021, the entity adopted new accounting standards. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

November 15, 2021

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Cash and cash equivalents	$ 4,165,085	$ 3,201,910
Cash and cash equivalents - designated for loan recourse	514,500	508,400
Total cash and cash equivalents	4,679,585	3,710,310
Accounts receivable	5,574	16,816
Unconditional promises to give, short-term	874,503	613,697
Current maturities of loans receivable - home preservation	636	1,744
Homeowners' escrow receivable	91,065	110,152
Current maturities of mortgage notes receivable	687,000	737,000
Prepaid expenses	88,709	40,376
Warehouse and ReStore inventory	660,905	393,415
Total current assets	7,087,977	5,623,510
RESTRICTED ASSETS		
Homeowners' escrow	666	3,937
Restricted cash - special projects	199,558	87,403
New markets tax credit restricted cash	57,448	67,464
Total restricted assets	257,672	158,804
OTHER ASSETS		
New markets tax credit - investments	1,335,241	1,335,241
New markets tax credit - other asset/guaranty fee	57,448	71,235
Inventory of properties, net of valuation allowance of $509,000 and $662,000 as of June 30, 2021 and 2020, respectively	2,055,005	2,630,602
Unconditional promises to give, net, long-term	463,572	605,774
Mortgage notes receivable, net of allowance for doubtful accounts of $45,000 and $55,000 as of June 30, 2021 and 2020, respectively	3,223,370	3,522,489
Loans receivable - bridge loan program	5,884	6,515
Loans receivable - critical home repair program	312,608	311,979
Property and equipment, net	3,409,521	1,889,286
Website development costs, net	10,999	14,939
Land held for investment	393,329	393,329
Total other assets	11,266,977	10,781,389
TOTAL ASSETS	$ 18,612,626	$ 16,563,703

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

June 30, 2021 and 2020

	2021	2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 279,907	$ 151,695
Current maturities of notes payable	157,398	53,747
Accrued expenses	220,480	90,695
Environmental remediation liability	300,000	0
Deferred revenue, new markets tax credit	57,448	67,464
Deferred revenue, other	39,175	25,500
Total current liabilities	1,054,408	389,101
LONG-TERM LIABILITIES		
Notes payable, less current maturities	619,589	719,291
Loan payable, net	1,822,316	1,818,777
Total long-term liabilities	2,441,905	2,538,068
TOTAL LIABILITIES	3,496,313	2,927,169
NET ASSETS		
Net assets without donor restrictions	13,558,752	12,281,434
Net assets with donor restrictions	1,557,561	1,355,100
Total net assets	15,116,313	13,636,534
TOTAL LIABILITIES AND NET ASSETS	$ 18,612,626	$ 16,563,703

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Changes in net assets:			
Public support, revenue and gains:			
Contributions	$ 1,476,526	$ 894,993	$ 2,371,519
Grant Income	478,938	0	478,938
In-kind contribution - other	550,174	0	550,174
Donated goods and services	351,527	0	351,527
Special events	521,428	0	521,428
Late fee income	9,401	0	9,401
Sale of properties	2,770,669	0	2,770,669
Net realizable value adjustment - inventory of properties	153,000	0	153,000
Mortgage discount amortization	407,334	0	407,334
Investment income, net	14,155	0	14,155
ReStore retail sales	2,789,209	0	2,789,209
ReStore donations, in-kind	2,391,918	0	2,391,918
Loss on sale of property and equipment	(22,106)	0	(22,106)
Critical home repairs income	112,727	0	112,727
Miscellaneous	2,064	0	2,064
Gain from extinguishment of debt	494,400	0	494,400
Net assets released from restrictions	692,532	(692,532)	0
Total public support, revenue and gains	13,193,896	202,461	13,396,357
Expenses and losses:			
Program services:			
Homebuilding	5,920,007	0	5,920,007
ReStore	4,639,652	0	4,639,652
Total program services	10,559,659	0	10,559,659
Supporting services:			
Management and general	488,904	0	488,904
Fundraising	568,015	0	568,015
Total supporting services	1,056,919	0	1,056,919
Total expenses	11,616,578	0	11,616,578
Environmental remediation loss	300,000	0	300,000
Total expenses and losses	11,916,578	0	11,916,578
Change in net assets	1,277,318	202,461	1,479,779
Net assets, beginning	12,281,434	1,355,100	13,636,534
Net assets, ending	$ 13,558,752	$ 1,557,561	$ 15,116,313

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED 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
In-kind contribution - other	0	0	0
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	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
Loss on sale of property and equipment	0	0	0
Critical home repairs income	308,324	0	308,324
Miscellaneous	217,787	0	217,787
Gain from extinguishment of debt	0	0	0
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 and losses:			
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
Environmental remediation loss	0	0	0
Total expenses and losses	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	$ 12,281,434	$ 1,355,100	$ 13,636,534

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2021

	Program services			Supporting services			
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	Total expenses
Expenses:							
Salaries, payroll taxes and fringe benefits	$ 1,118,887	$ 882,811	$ 2,001,698	$ 389,763	$ 408,423	$ 798,186	$ 2,799,884
Professional fees	18,417	318,066	336,483	0	0	0	336,483
Insurance	12,523	174,849	187,372	31,223	2,082	33,305	220,677
Staff travel and development	3,122	2,788	5,910	2,090	7,651	9,741	15,651
Occupancy	496,289	115,845	612,134	13,629	6,814	20,443	632,577
Audit/accounting	0	0	0	23,400	0	23,400	23,400
Office supplies	9,026	842	9,868	2,627	309	2,936	12,804
Printing and publications	1,222	779	2,001	2,220	23,825	26,045	28,046
Telephone	25,407	26,289	51,696	1,772	1,477	3,249	54,945
Equipment/maintenance	6,452	3,496	9,948	458	208	666	10,614
Database management	24,133	46,196	70,329	9,239	6,159	15,398	85,727
Completed project costs/cost of sales on properties	0	3,830,481	3,830,481	0	0	0	3,830,481
ReStore cost of sales	2,253,000	0	2,253,000	0	0	0	2,253,000
Volunteer expenses	10,816	13,787	24,603	0	0	0	24,603
Special events	65	4,185	4,250	0	25	25	4,275
Promotions and advertising	88,207	7,561	95,768	0	25,691	25,691	121,459
Interest expense	20,688	16,857	37,545	1,950	0	1,950	39,495
Bank and credit card fees	47,224	3,719	50,943	1,112	10,008	11,120	62,063
Sales tax	143,577	0	143,577	0	0	0	143,577
AmeriCorps	0	115,951	115,951	0	0	0	115,951
Depreciation	81,391	78,661	160,052	890	890	1,780	161,832
Postage and shipping	5	3,864	3,869	773	3,091	3,864	7,733
Fundraising	0	0	0	0	70,539	70,539	70,539
Cost of goods sold	272,703	0	272,703	0	0	0	272,703
Miscellaneous	6,498	22,931	29,429	7,758	823	8,581	38,010
National affiliate/Global Village	0	250,049	250,049	0	0	0	250,049
Total expenses	$ 4,639,652	$ 5,920,007	$ 10,559,659	$ 488,904	$ 568,015	$ 1,056,919	$ 11,616,578

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

	Program services			Supporting services			
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	Total expenses
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
Total expenses	$ 4,044,130	$ 4,641,972	$ 8,686,102	$ 533,765	$ 587,487	$ 1,121,252	$ 9,807,354

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,479,779	$ 1,611,253
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(10,000)	(21,000)
Depreciation	161,832	121,401
Overstated depreciation from prior years included in miscellaneous income	0	(138,192)
Amortization of debt issuance costs	3,539	19,096
Mortgage discount amortization	(407,334)	(451,907)
Loss on sale of property and equipment	22,106	0
Gain on investments in new markets tax credit	0	(450,000)
Gain from extinguishment of debt	(494,400)	0
Valuation allowance for loss on homes	(153,000)	215,000
Increase (decrease) in cash due to changes in:		
Accounts receivable	11,242	0
Unconditional promises to give	(118,604)	(707,338)
Escrow receivable	19,087	4,768
Prepaid expenses	(48,333)	16,421
Inventory	71,655	(1,254,094)
New markets tax credit - other asset/guaranty fee	13,787	18,664
Accounts payable	128,212	(140,967)
Accrued expenses	129,785	(133,125)
Accrued remediation liability	300,000	0
Deferred revenue	3,659	(23,780)
Net cash provided by (used in) operating activities	1,113,012	(1,313,800)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,700,233)	(328,398)
Collections on mortgage notes receivable	834,435	878,130
Collections on home preservation loans receivable	1,108	4,944
Collections on bridge loans receivable	631	117
Issuance of critical home repair loans receivables	(629)	(250,829)
Proceeds from sale of mortgage notes	321,470	769,414
Net cash provided by (used in) investing activities	(543,218)	1,073,378
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	920,000	517,282
Principal payments on notes payable	(421,651)	(46,009)
Net cash provided by financing activities	498,349	471,273

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years ended June 30, 2021 and 2020

	2021	2020
Change in cash, cash equivalents, and restricted cash	$ 1,068,143	$ 230,851
Cash, cash equivalents, and restricted cash:		
Beginning	3,869,114	3,638,263
Ending	$ 4,937,257	$ 3,869,114
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	$ 4,679,585	$ 3,710,310
Restricted cash	257,672	158,804
Total cash, cash equivalents, and restricted cash	$ 4,937,257	$ 3,869,114
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	$ 35,956	$ 15,316
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of mortgage notes receivable for sale of houses	$ 389,452	$ 233,339
Closing of new markets tax credit loan payable due to the put option being exercised	$ 0	$ 1,880,000
Closing of new markets tax credit investment due to the put option being exercised	$ 0	$ 1,430,000
Forgiveness of Paycheck Protection Program loan	$ 494,400	$ 0

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

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.

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.

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:

	2021	2020
Completed homes	$ 173,309	$ 194,206
Homes under construction	2,390,696	3,098,396
Valuation allowance	(509,000)	(662,000)
	$ 2,055,005	$ 2,630,602

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) – 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 the investment in nonmarketable equity securities using the measurement alternative (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).

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:

	Years
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.

Environmental remediation costs

The organization accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their net present value.

Deferred revenue, NMTC

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

Debt issuance costs

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, 2021 and 2020, 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 $3,539 and $19,096 for the years ended June 30, 2021 and 2020, respectively.

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

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.

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.

Revenue recognition – contracts with customers

Revenues from ReStore retail sales
A portion of the organization's revenue is derived from ReStore sales during the year. The 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 amount 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 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 on a home and closing procedures have 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 critical home repairs income
A portion of the organization's revenue is derived from critical 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 critical home repairs when the home repairs have been completed and the mortgage documents are signed (point in time).

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

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.

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, 2021 and 2020 totaled $2,532,258 and $2,071,940, 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 $211,187 and $177,293 for the years ended June 30, 2021 and 2020, 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.

Advertising

All advertising costs are expensed as incurred. Advertising costs totaled $121,458 and $82,800 for the years ended June 30, 2021 and 2020, respectively.

Sales taxes on revenue-producing transactions

The organization follows the policy of excluding sales taxes collected from a customer from revenues. The obligation is included in accrued expenses until the taxes are remitted to the appropriate taxing authorities.

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

New accounting standards adopted

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

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

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

The modified retrospective method of transition requires the organization to disclose the effect of applying the new guidance on each item included in the 2021 financial statements. There were no changes to the amounts of any line items in the statement of financial position, statement of activities, or statement of cash flows as of and for the year ended June 30, 2021, that would have been reported under the former guidance.

In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Made*, which requires an entity to determine whether a transfer of assets to a recipient is a contribution or an exchange transaction and then determine whether a transfer that is a contribution is conditional. 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.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2021. The adoption of this new standard did not have a material impact on the entity's financial statements.

Subsequent events

These financial statements have not been updated for subsequent events occurring after November 15, 2021, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

NOTE B -- Investment income, net

The organization's net investment income is as follows:

	2021	2020
Interest income	$ 844	$ 26,740
Interest on NMTC investment	13,311	13,311
Gain on investment in NMTC	0	450,000
	$ 14,155	$ 490,051

NOTE C -- Mortgage notes receivable

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

	2021	2020
Gross mortgage notes receivable	$ 7,959,746	$ 8,726,199
Less: unamortized mortgage discounts	(4,004,376)	(4,411,710)
Less: allowance for doubtful mortgage notes	(45,000)	(55,000)
Net mortgage notes receivable	3,910,370	4,259,489
Less: current portion of mortgage notes receivable	(687,000)	(737,000)
Net mortgage notes receivable, less current maturities	$ 3,223,370	$ 3,522,489

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 7.23% and 7.38% in 2021 and 2020, 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 $690,000 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, 2021 and 2020, mortgages represented 21% and 26% of total assets, respectively.

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

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

	2021	2020
Beginning of year	$ 55,000	$ 76,000
Decreases	(10,000)	(21,000)
End of year	$ 45,000	$ 55,000

The credit quality indicator is based on days delinquent.

As of June 30, 2021, the following mortgages and amounts were considered past due:

	Number of delinquent mortgages	Principal balance
30 - 59 days	9	$ 272,533
60 - 89 days	3	104,366
90 - 119 days	4	163,039
Over 120 days	34	917,182

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

NOTE E -- Unconditional promises to give

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

	2021	2020
Unconditional promises to give	$ 1,358,003	$ 1,267,697
Less: present value discount	19,928	48,226
Net unconditional promises to give	1,338,075	1,219,471
Less: unconditional promises to give in one to five years	463,572	605,774
Unconditional promises to give in less than one year	$ 874,503	$ 613,697

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 3.50% and 4.66% as of June 30, 2021 and 2020, 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, 2021 and 2020 were $91,065 and $110,152, 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 $514,500 and $508,400 as of June 30, 2021 and 2020, respectively. These funds are considered board designated.

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

NOTE G -- Property and equipment, net

Property and equipment, net is comprised of the following:

	2021	2020
Land	$ 1,314,473	$ 623,597
Buildings	1,421,012	997,894
Building improvements	1,281,058	810,933
Vehicles	113,400	116,845
Equipment	143,106	80,682
Computer equipment	103,233	103,233
	4,376,282	2,733,184
Less accumulated depreciation	966,761	843,898
	$ 3,409,521	$ 1,889,286

NOTE H -- Notes payable

Notes payable consist of the following:

	2021	2020
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.	$ 53,263	$ 80,478
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.	9,276	12,026
Unsecured notes payable to Neighborhood Improvement Development Corp.; due in monthly payments ranging from $317 to $985; maturing January 31, 2031; the notes bear interest at a rate of 1%.	200,751	186,134
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; loan was forgiven in full on November 2, 2020.	0	494,400
Town Bank; nonrecourse; monthly payments of $4,624, including interest at 3.90%; collateralized by a mortgage on one of the organization's buildings; due October 9, 2025.	513,697	0
	776,987	773,038
Less current maturities	157,398	53,747
	$ 619,589	$ 719,291

NOTE H -- Notes payable (Continued)

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

Year ending June 30,	
2022	$ 157,398
2023	160,385
2024	164,893
2025	160,936
2026	73,092
Thereafter	60,283
	$ 776,987

NOTE I -- Loan payable, net

Loan payable, net consist of the following:

	2021	2020
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 $96,178 and $99,717 as of June 30, 2021 and 2020, respectively; interest expense totaled $13,318 and $13,316 for the years ended June 30, 2021 and 2020, respectively.	1,918,494	1,918,494
	1,918,494	1,918,494
Less unamortized debt issuance costs	96,178	99,717
	$ 1,822,316	$ 1,818,777

NOTE I -- Loan payable, net (Continued)

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

Year ending June 30,	
2022	$ 0
2023	0
2024	0
2025	0
2026	75,433
Thereafter	1,843,061
	$ 1,918,494

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, 2021 and 2020. Effective February 17, 2021, the interest rate is variable based on the prime rate with a floor of 3.50% (3.50% as of June 30, 2021). Prior to February 17, 2021, the interest rate was variable based on the 1-month LIBOR rate plus 3% (3.16% as of June 30, 2020). The line of credit expires on February 17, 2022.

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:

	2021	2020
Internship program	$ 71,326	$ 635
Air conditioners	47,855	36,417
Critical housing	50,000	0
Emergency mortgage relief	3,317	0
Pantry stocking	2,060	0
Gifts for homeowners	25,000	0
Time restrictions on unconditional promises to give	1,358,003	1,267,697
Warehouse and construction tools	0	34,151
Projects at RW & RS	0	2,500
Solar panels for 651 and 652	0	5,400
Waukesha City Community Foundation - door	0	8,300
	$ 1,557,561	$ 1,355,100

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, 2021 and 2020, totaled $145,971 and $149,879, respectively.

The organization also had an operating lease with a third party for the East ReStore location. The lease required monthly lease payments ranging from $4,763 to $5,053 and expired in October 2020. In addition to the monthly rent expense, the lease required payments for CAMs, property taxes, and utilities that varied month to month. Total expense under the lease for the years ended June 30, 2021 and 2020, totaled $47,296 and $111,755, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,		
2022	$	87,550

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, 2021 and 2020, the amount of the tithe expense totaled $250,049 and $228,000, respectively.

Habitat for Humanity International Inc. receives contributions on behalf of the organization. For the years ended June 30, 2021 and 2020, the amount of these contributions passed through to the organization from Habitat for Humanity International Inc. totaled $152,405 and $179,180, 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 $34,544 and $37,031 for years ended June 30, 2021 and 2020, respectively.

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 $0 and $450,000 for the years ending June 30, 2021 and 2020, 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.

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.

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 years ended June 30, 2021 and 2020. Determining whether an observed transaction is similar to a security within the organization’s portfolio requires judgment based on the rights and obligations of the securities. Recording upward and downward adjustments to the carrying value of the organization’s investments in nonmarketable equity securities as a result of observable price changes requires quantitative assessment of the fair value of the organization’s investments using various valuation methodologies and involves the use of estimates.

Nonmarketable equity securities under the measurement alternative are also assessed for impairment. When the qualitative assessment indicates that impairment exists, the investment is written down, with impairment recognized in the statement of activities. No impairment was recognized for the years ended June 30, 2021 and 2020.

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).

	2021	2020
Cash	$ 4,165,085	$ 3,201,910
Accounts receivable	5,574	16,816
Unconditional promises to give	874,503	613,697
Loan receivable	636	1,744
Mortgage notes receivable	687,000	737,000
Escrow receivable	91,065	110,152
Financial assets available within one year	$ 5,823,863	$ 4,681,319

NOTE Q -- Commitments and contingencies

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 (SBA) 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 organization obtained forgiveness of the PPP Loan on November 2, 2020 and recognized it as a gain from extinguishment 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 loan after forgiveness, the borrower must immediately repay the loan to the lender.

NOTE R -- Environmental remediation costs

The organization tested for and found soil contamination at the organization's office location. The organization is working on the clean-up process under the direction of the Wisconsin Department of Natural Resources. As of June 30, 2021 and 2020, the Organization recorded the estimated cost of remediation of $300,000 and $0, respectively, as an accrued environmental remediation liability on the statements of financial position, and as environmental remediation expenses on the statements of activities.