

**GREATER FOX CITIES AREA
HABITAT FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Greater Fox Cities Area Habitat for Humanity, Inc.
Menasha, Wisconsin

We have audited the accompanying financial statements of Greater Fox Cities Area Habitat for Humanity, Inc. (the Organization) (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Greater Fox Cities Area Habitat for Humanity, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Greater Fox Cities Area Habitat for Humanity, Inc.'s financial statements as of and for the year ended June 30, 2017, and our report dated October 27, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

Appleton, Wisconsin
October 24, 2018

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

With Comparative Information as of June 30, 2017

ASSETS	<u>2018</u>	<u>2017</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 1,044,376	\$ 1,706,195
Certificates of deposit	554,798	302,966
Other receivables	7,602	4,153
Contributions and grants receivable, current portion:		
HFHI grants receivable	193,058	134,561
Other	208,532	222,618
Mortgage loans receivable, current portion	325,000	324,000
Prepaid expenses	35,420	34,248
Inventories:		
Materials	412,862	230,401
Home construction, rehabilitation, and repairs in process	884,035	960,413
Property held for development/rehabilitation, current portion	<u>526,401</u>	<u>493,425</u>
Total current assets	<u>4,192,084</u>	<u>4,412,980</u>
Property and equipment, net	<u>3,536,161</u>	<u>1,183,089</u>
<u>Other assets</u>		
Contributions and grants receivable, less current portion	90,773	185,969
Property held for development/rehabilitation, less current portion	639,329	790,587
Restricted cash	47,793	59,741
Investment in joint venture	1,134,115	1,134,115
Investment in partnership	48,950	48,950
Beneficial interest in assets held by Community Foundation	2,835,592	2,287,638
Mortgage loans receivable, less current portion	1,776,080	1,850,012
Rental properties, net	<u>483,689</u>	<u>300,584</u>
Total other assets	<u>7,056,321</u>	<u>6,657,596</u>
Total assets	<u>\$14,784,566</u>	<u>\$ 12,253,665</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	<u>2018</u>	<u>2017</u>
<u>Current liabilities</u>		
Notes payable, current maturities	\$ 598,637	\$ 169,414
Accounts payable	123,034	112,101
Accrued payroll	43,162	34,003
Mortgage escrows	305,978	304,231
Funds held for others	36,235	27,557
Other current liabilities	<u>53,520</u>	<u>44,947</u>
Total current liabilities	1,160,566	692,253
Notes payable, less current maturities	<u>4,623,815</u>	<u>3,160,410</u>
Total liabilities	<u>5,784,381</u>	<u>3,852,663</u>
<u>Net assets</u>		
Unrestricted	7,802,273	6,848,190
Temporarily restricted	<u>1,197,912</u>	<u>1,552,812</u>
Total net assets	<u>9,000,185</u>	<u>8,401,002</u>
Total liabilities and net assets	<u>\$14,784,566</u>	<u>\$12,253,665</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

With Summarized Comparative Information for the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
<u>Support and other revenue</u>				
Contributions	\$ 1,014,780	\$ 473,706	\$ 1,488,486	\$ 1,824,743
Grants	250,042	275,722	525,764	480,499
ReStore in-kind contributions	1,137,009	-	1,137,009	887,208
Other in-kind contributions	480,700	-	480,700	227,392
Sales to homebuyers	2,115,410	-	2,115,410	1,981,877
Owner-occupied home repair services	209,409	-	209,409	96,642
Mortgage loans discount amortization	178,636	-	178,636	167,037
ReStore sales	1,258,017	-	1,258,017	1,050,575
Return on beneficial interest on assets held by Community Foundation	48,347	-	48,347	104,723
Investment and interest income	33,356	-	33,356	26,098
Gain on sale of mortgage loans receivable	955,307	-	955,307	469,503
Gain on second mortgages and other sales	89,122	-	89,122	78,428
Rent income	41,628	-	41,628	37,681
Other income	13,024	-	13,024	12,128
Net assets released from restrictions	<u>1,063,402</u>	<u>(1,063,402)</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>8,888,189</u>	<u>(313,974)</u>	<u>8,574,215</u>	<u>7,444,534</u>
<u>Expenses</u>				
Program services - Housing	5,112,706	-	5,112,706	4,367,320
Program services - ReStore	2,200,670	-	2,200,670	1,660,924
Management and general	374,374	-	374,374	329,802
Fundraising	<u>246,356</u>	<u>-</u>	<u>246,356</u>	<u>252,983</u>
Total expenses	7,934,106	-	7,934,106	6,611,029
Loss on returned grant	<u>-</u>	<u>40,926</u>	<u>40,926</u>	<u>-</u>
Total expenses and loss	<u>7,934,106</u>	<u>40,926</u>	<u>7,975,032</u>	<u>6,611,029</u>
Change in net assets	954,083	(354,900)	599,183	833,505
<u>Net assets</u>				
Beginning of year	<u>6,848,190</u>	<u>1,552,812</u>	<u>8,401,002</u>	<u>7,567,497</u>
End of year	<u>\$ 7,802,273</u>	<u>\$ 1,197,912</u>	<u>\$ 9,000,185</u>	<u>\$ 8,401,002</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

With Summarized Comparative Information for the Year Ended June 30, 2017

	Program Services - <u>Housing</u>	Program Services - <u>ReStore</u>	Management and <u>General</u>	Fund- raising	<u>Totals</u>	
					<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 585,734	\$ 422,276	\$ 217,426	\$ 139,758	\$ 1,365,194	\$ 1,137,817
Employee benefits and payroll taxes	159,980	151,555	55,523	32,492	399,550	306,272
Cost of sales to homebuyers	2,550,139	-	-	-	2,550,139	2,186,695
Cost of owner-occupied home repair services	183,619	-	-	-	183,619	178,557
Mortgage loans discount	1,118,549	-	-	-	1,118,549	859,027
Cost of purchased goods sold	-	172,091	-	-	172,091	56,511
Value of donated goods sold	-	940,691	-	-	940,691	887,208
Professional fees	23,820	9,300	60,711	3,875	97,706	92,571
Office and technology	39,644	51,670	7,700	6,470	105,484	70,644
Occupancy	32,073	223,536	9,323	2,522	267,454	198,854
Insurance	30,823	14,800	1,646	-	47,269	36,383
Property tax	7,167	23,807	-	-	30,974	35,813
Equipment costs	18,228	10,337	258	14	28,837	45,938
Printing	10,704	15,439	2,869	13,197	42,209	30,616
Advertising	2,915	648	4,863	27,436	35,862	34,864
Fuel and travel	43,401	15,925	2,404	2,110	63,840	60,889
Conference and convention	12,871	7,391	963	2,619	23,844	23,536
Tithe and fees to HFHI	75,092	-	-	-	75,092	92,130
Interest	61,833	25,830	2,503	-	90,166	72,211
Depreciation	63,738	53,499	2,382	2,379	121,998	72,555
Other	<u>92,376</u>	<u>61,875</u>	<u>5,803</u>	<u>13,484</u>	<u>173,538</u>	<u>131,938</u>
Total functional expenses	<u>\$ 5,112,706</u>	<u>\$ 2,200,670</u>	<u>\$ 374,374</u>	<u>\$ 246,356</u>	<u>\$ 7,934,106</u>	<u>\$ 6,611,029</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

With Comparative Information for the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u>
<u>Operating activities</u>		
Change in net assets	\$ 599,183	\$ 833,505
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	121,998	72,555
Change in present value discount on contributions and grants receivable	(4,862)	8,197
Return on beneficial interest in assets held by Community Foundation	(48,347)	(104,723)
Discount on mortgage loans receivable	1,118,549	859,027
Amortization of mortgage loans discount	(178,636)	(167,037)
Discount on notes payable	(4,272)	(4,908)
Amortization of notes payable discount and debt issuance costs	15,541	18,040
Non-cash sales to homebuyers	(1,930,542)	(1,789,470)
Non-cash owner-occupied home repairs services	(123,429)	(44,626)
Non-cash contribution of property and equipment	(196,544)	-
Non-cash contribution of property held for development/rehabilitation	(50,000)	(30,800)
Non-cash contribution of rental properties	(11,691)	(26,844)
Gain on sale of mortgage loans receivable	(955,307)	(469,503)
Gain on second mortgages and other sales	(89,122)	(83,298)
Loss on returned grant	40,926	-
Decrease (increase) in:		
Other receivables	(3,449)	6,341
Contributions and grants receivable	14,721	(365,655)
Prepaid expenses	(1,172)	(17,332)
Inventories	(68,778)	56,649
Increase (decrease) in:		
Accounts payable	10,933	(14,066)
Accrued payroll	9,159	(50,487)
Mortgage escrows	1,747	14,233
Funds held for others	8,678	(175)
Other current liabilities	<u>8,573</u>	<u>5,296</u>
Net cash used for operating activities	<u>(1,716,143)</u>	<u>(1,295,081)</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2018

With Comparative Information for the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u>
<u>Investing activities</u>		
Purchases of certificates of deposit	\$ (404,782)	\$ (153,257)
Proceeds from maturities of certificates of deposit	152,950	152,630
Purchase of property and equipment	(151,186)	(83,088)
Proceeds from sale of property and equipment	-	1,300
Purchase of beneficial interest in assets held by Community Foundation	(1,999,607)	(980,305)
Distribution from beneficial interest in assets held by Community Foundation	1,500,000	51,131
Proceeds from sale of mortgage loans receivable	1,699,607	1,266,775
Collections received on mortgage loans receivable	442,690	458,989
Collections on second mortgages	89,122	81,998
Purchase of rental properties	<u>(52,837)</u>	<u>(104,792)</u>
Net cash provided by investing activities	<u>1,275,957</u>	<u>691,381</u>
<u>Financing activities</u>		
Proceeds from notes payable	64,338	52,622
Payments on notes payable	<u>(297,919)</u>	<u>(167,715)</u>
Net cash used for financing activities	<u>(233,581)</u>	<u>(115,093)</u>
<u>Cash, cash equivalents, and restricted cash</u>		
Net decrease	(673,767)	(718,793)
Beginning of year	<u>1,765,936</u>	<u>2,484,729</u>
End of year	<u>\$ 1,092,169</u>	<u>\$ 1,765,936</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ 74,625	\$ 54,171
<u>Non-cash investing and financing activities</u>		
Sales to homebuyers for which mortgage loans receivable were obtained	\$ 1,930,542	\$ 1,789,470
Owner-occupied home repairs services for which mortgage loans receivable were obtained	\$ 123,429	\$ 44,626
Contribution of property and equipment	\$ 196,544	\$ -
Purchase property and equipment with note payable	\$ 2,114,940	\$ -
Contribution of rental properties	\$ 11,691	\$ 26,844
Transfer of property held for development/rehabilitation to rental properties	\$ 130,977	\$ -

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Greater Fox Cities Area Habitat for Humanity, Inc. (Organization) is a charitable organization located in Menasha, Wisconsin that is an affiliate of Habitat for Humanity International, Inc. (HFHI). The Organization is a non-denominational Christian not-for-profit organization whose purpose is to create safe, decent and affordable housing in partnership with those in need. This is achieved through a wide range of affordable housing solutions.

Although HFHI assists with information resources, the Organization is primarily and directly responsible for its own operations. Such operations are conducted within the Fox Cities area and include: the Homebuyer, Home Repair, Almost Home, Rental and Neighborhood Revitalization programs. In addition, the Organization operates two Habitat ReStore retail outlets.

Homebuyer program - Through the Homebuyer program, the Organization constructs new or rehabilitates existing homes and sells those homes to low-income families who pay for the homes through no-interest mortgages. Prospective homebuyers must demonstrate a need for safe, decent and affordable housing, be able and willing to pay for an affordable mortgage, and be willing to partner with the Organization by investing "sweat equity" into their home. In addition to working side-by-side with volunteers through the construction of their homes, partner families complete courses in financial literacy, home maintenance, how to be a good neighbor, and a wide range of other courses to set them up to be successful homeowners.

Home Repair program - In collaboration with Rebuilding Together, the Home Repair program provides easy access to home repair services for low income homeowners through a single point of entry into services from both organizations. The Home Repair program provides critical home repairs so that existing homeowners can live in a safe, healthy and affordable home.

Almost Home program - The Almost Home program provides case management and holistic support for families working toward home ownership and Habitat homeowners at risk of becoming delinquent on their mortgages. Individual and family needs are assessed to establish financial, vocational, educational and other goals. Almost Home helps participants monitor their progress and guides them to resources to help them meet their goals.

Rental program - The Rental program creates a unique, temporary housing solution for families in the Almost Home program. The Organization purchases blighted properties and rehabilitates them into safe, decent and affordable rental properties. Almost Home program participants who are currently living in sub-standard housing temporarily rent from the Organization while working on their goals toward home ownership.

Neighborhood Revitalization program - The Neighborhood Revitalization program provides exterior home repairs for low income homeowners. Rock the Block® is a multi-day event that kicks off the Organization's Neighborhood Revitalization efforts in a targeted neighborhood. The Organization brings together residents, municipalities and community partners to complete exterior home repairs for low income homeowners and community projects to improve and beautify the neighborhood surrounding the homes.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

A. Nature of activities, continued

Habitat ReStore - Habitat for Humanity ReStores are nonprofit home improvement stores and donation centers that sell new and donated furniture, appliances, home accessories, building materials and more to the public at a fraction of the retail price. Proudly owned and operated by the Organization, Habitat ReStores provide funding for the Organization's mission, offer affordable home improvement items to the general public, and divert waste from landfills.

Global Homebuilding - Habitat for Humanity's vision is a world where everyone has a decent place to live. By tithing 10% of all unrestricted donations to Habitat's Global Homebuilding program, the Organization partners with developing countries to provide financial and volunteer resources desperately needed to improve their housing conditions (see Note 17).

The Organization is supported primarily through contributions, grants, sales from ReStore, homeowner mortgage payments and home repair loan payments.

B. 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.

C. Basis of presentation

The Organization is required to report information regarding its financial position and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Organization.

The Organization had no permanently restricted net assets at June 30, 2018.

D. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

E. Cash equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Contributions and grants receivable

Unconditional promises to give are recognized as revenue and as assets in the period the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

G. Inventories

Materials

Materials inventory includes construction materials and ReStore inventory. Construction materials consists of home building materials used in construction of the Organization's homes, substantially all of which are donated, and are recorded at fair value at the time of donation. At the end of its fiscal year, the Organization estimates the value of construction materials determined by the first-in, first-out method. ReStore inventory includes items purchased by and donated to ReStore. At the end of its fiscal year, the Organization estimates the value of ReStore goods on hand based on the estimated retail value. Inventory purchased by ReStore is stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Home construction, rehabilitation, and repairs in process

Costs incurred in conjunction with home construction and home rehabilitation are recorded as assets until the sale of the home. Costs incurred in conjunction with home repair services are recorded as assets until the project is complete.

Property held for development/rehabilitation

Property held for development/rehabilitation consists of purchased or donated land that will be developed for future home construction, properties acquired for rehabilitation to be sold to new homeowners, and homes that have been re-acquired from previous homeowners that will be sold on the open market. Properties are valued at the lower of cost or market.

H. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$1,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

I. Restricted cash

Restricted cash consists of cash restricted for future professional fees related to the investment in joint venture. The breakdown of total cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amount shown in the statement of cash flows at June 30, 2018 consists of the following:

Cash and cash equivalents	\$ 1,044,376
Restricted cash	<u>47,793</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 1,092,169</u>

J. Investment in joint venture

The Organization, along with eleven other Habitat affiliates, invested in a joint venture (HFHI NMTC Leverage Lender 2013-1, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. 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. For a 7.35% ownership share of the joint venture, the Organization invested \$1,134,115, which was financed with a loan payable to a community development entity (HFHI NMTC Sub-CDE I, LLC, an affiliate of the joint venture) (see Note 12). The Organization carries its investment in joint venture at the lower of cost or market value.

K. Investment in partnership

The Organization's investment in partnership consists of a minor interest in a limited partnership. The Organization carries its investment in the limited partnership at the lower of the fair value as of the date the investment was donated to the Organization (cost) or market value. The Organization's risk of loss is limited to the carrying amount of the investment. There is not a public market for this investment. Because the investment in the limited partnership is not readily marketable, its estimated value is subject to uncertainty and, therefore may differ from the value that would have been used had a ready market for such investment been available.

L. Mortgage loans receivable

Mortgage loans receivable consists of loans secured by real estate located in the Fox Cities area of Wisconsin. The loan terms typically include maturities of 12-360 months and are non-interest bearing. Since the mortgage loans are non-interest bearing, they are discounted using a rate determined annually by HFHI, which is based on a national rate for a home purchaser with a credit risk similar to the homeowners qualified to purchase a home from the Organization. Once the rate is determined, it is not revised for any market changes.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

L. Mortgage loans receivable, continued

For the Homebuyer program, the Organization sells homes at the appraised value determined by an independent third party appraisal company. At the time of the home sale, the Organization obtains a first mortgage for each home. The length of the loan is determined by the income of the family with a range of 240-360 months. Monthly mortgage payment amounts (including escrow for taxes and insurance) are set based on 23% of the family's gross monthly income. Based on that calculation, if a family is not able to pay off the full loan amount in less than 30 years, then the Organization issues a 0% interest deferred second mortgage that represents the difference between the appraised value and the amount the family can afford to pay over 30 years. The second mortgage would become due if the homeowner sells, refinances, defaults, or the home is no longer their primary residence before a stipulated time period. The second mortgage is forgivable pro-rata over a 240 month period. If the second mortgage becomes due, it is collected after the first mortgage is satisfied, and after certain other liens are satisfied. Because the use of the second mortgage is unlikely and unknown, the Organization has not recorded a receivable for these second mortgages in the financial statements. The undiscounted value of the second mortgages not recorded in the financial statements totaled approximately \$4,460,000 at June 30, 2018. If a second mortgage becomes due, the Organization includes the proceeds in gain on second mortgages and other sales on the statement of activities at the time it is collected.

The mortgage loans for the Home Repair program are based on the Organization's costs to provide the labor, overhead, and materials to complete the home repair. No profit is charged on these projects. The loan terms range from 12-84 months based on the debt-to-income ratio for each family.

M. Funds held for others

Funds held for others represent grant receipts received on behalf of other charitable organizations. These funds are included in the Organization's cash accounts. These funds typically support activities that are not programs of the Organization, and are not under the control of the Organization. As such, the Organization has recorded a liability related to these funds and does not include the activity of these funds in its statement of activities.

N. Contribution recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

N. Contribution recognition, continued

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The value of donated services capitalized in rental properties and included in in-kind contributions totaled \$11,691 during the year ended June 30, 2018. Many other volunteers provided services to the Organization throughout the year that have not been recognized as contributions in the financial statements because the recognition criteria were not met. The Organization estimates approximately 78,000 volunteer hours were contributed during the year ended June 30, 2018 that did not meet the recognition criteria.

O. Other revenue recognition

The Organization recognizes income from sales to homebuyers when title and risk transfer to the homebuyer. The Organization recognizes income from home repair services when the service is completed and mortgage documents are signed.

P. Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. During the year ended June 30, 2018, advertising costs totaled \$35,862.

Q. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

R. Presentation of sales tax

The Organization collects sales tax from certain customers and remits the entire amount to the appropriate governmental entities. The Organization's accounting policy is to exclude the tax collected and remitted from revenues and expenses.

S. Income tax status

The Organization has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International, Inc. by the Internal Revenue Service. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization is also exempt from Wisconsin income taxes.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

T. Summarized financial information

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

U. Change in accounting principle

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. ASU 2015-11 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within the scope of the Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Organization adopted ASU 2015-11 as of June 30, 2018 and has applied it on a prospective basis. The adoption of ASU 2015-11 did not have a material impact on the Organization's financial statements.

V. Recent accounting pronouncements

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends current financial statements presentation and disclosure requirements. This ASU was presented to simplify the net asset classification requirements and improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The standard reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. This standard is effective for annual reporting periods beginning after December 15, 2017. The Organization is currently evaluating the impact of ASU 2016-14 on the Organization's financial statements.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The FASB has issued several amendments to the original standard, which is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Adoption is to be applied retrospectively. The Organization is currently evaluating the impact of ASU 2014-09 on the Organization's financial statements.

W. Subsequent events

The Organization has evaluated events and transactions for potential recognition of disclosure in the financial statements through October 24, 2018, the date on which the financial statements were available to be issued.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 1 - Nature of activities and significant accounting policies, continued

X. Reclassifications

Certain amounts in the prior-year summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements with no change in previously reported net assets or changes in net assets.

Note 2 - Prior period adjustment

In prior years, the Organization recorded the sales of donated ReStore inventory net with the value of the donated inventory sold. During the year ended June 30, 2018, the Organization began recording these items using gross reporting. Accordingly, the prior period comparative information was changed to also record gross reporting. Prior year revenue and expenses were both increased by \$887,208 resulting in no change in net assets.

Note 3 - Concentration of credit risk

The Organization maintains its cash balances at several banks and credit unions in the Fox Cities area. Aggregate deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund up to \$250,000 per insured depository institution. The Organization's cash deposits may exceed these insured limits at times during the year. The Organization has not experienced any losses on these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

Note 4 - Certificates of deposit

The Organization holds certificates of deposit totaling \$554,798 at June 30, 2018. The certificates bear interest rates ranging from 1.1% - 2.25% and have maturities of fifteen to nineteen months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 5 - Contributions and grants receivable

Unconditional contributions and grants receivable at June 30, 2018 consist of the following:

Receivable in less than one year	\$ 401,590
Receivable in one to five years	<u>94,108</u>
Total contributions and grants receivable	495,698
Less discount at rate of 3%	<u>(3,335)</u>
Present value of contributions and grants receivable	<u>\$492,363</u>

The Organization considers all of the contributions and grants receivable at June 30, 2018 to be fully collectible; accordingly, no allowance for uncollectible contributions has been established.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 5 - Contributions and grants receivable, continued

At June 30, 2018, the Organization also had conditional promises to give of approximately \$113,000. The promises to give contain conditions such as providing occupancy to the homebuyer by a specific date, and successful review, evaluation, and approval of progress by the donor, and will be included in the financial statements in future years when the conditions are met.

Note 6 - Inventories

Inventories at June 30, 2018 consist of the following:

Materials:	
ReStore inventory	\$ 321,037
Construction materials	<u>91,825</u>
Total materials	<u>\$ 412,862</u>
Home construction, rehabilitation, and repairs in process:	
Home construction and rehabilitation in process	\$ 782,237
Owner-occupied home repairs in process	<u>101,798</u>
Total home construction, rehabilitation, and repairs in process	<u>\$ 884,035</u>
Property held for home development/rehabilitation:	
Land for development	\$ 558,567
Homes for rehabilitation	<u>607,163</u>
Total property held for development/rehabilitation	<u>\$ 1,165,730</u>

Note 7 - Property and equipment, net

Property and equipment consists of the following at June 30, 2018:

Land	\$ 754,236
Buildings and improvements	2,760,186
Office equipment	327,097
Trucks and trailers	<u>242,843</u>
	4,084,362
Less accumulated depreciation	<u>(548,201)</u>
	<u>\$ 3,536,161</u>

Depreciation expense on the above assets was \$109,598 for the year ended June 30, 2018.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 7 - Property and equipment, net, continued

On November 24, 2017, the Organization purchased a building and land for approximately \$2,140,000 which is financed by a loan from Community First Credit Union (see Note 12). This building is used as the Organization's second ReStore location, which opened in January 2018.

Note 8 - Beneficial interest in assets held by Community Foundation

Beneficial interest in assets held by Community Foundation represents amounts held at the Community Foundation for the Fox Valley Region, Inc. (the Foundation). The Organization has two funds at the Foundation called the "Greater Fox Cities Area Habitat for Humanity Fund I" (the Fund I) and "Greater Fox Cities Area Habitat for Humanity Fund II" (the Fund II). These funds are legal assets of the Foundation with the restriction that the Foundation makes distributions to the Organization. The agreements governing the assets include a variance power allowing the Foundation to modify the restrictions on distributions from the funds.

The funds were established by the Board of Directors to support the mission of the Organization. Since the funds were created as a result of an internal designation and are not donor restricted, they are classified and reported as unrestricted net assets. Distributions from the funds may be made at the Organization's request.

The Organization works with the Foundation to maximize total return consistent with an acceptable level of risk. Fund assets are invested to balance mild liquidity needs with a reasonable level of expected appreciation over full market cycles.

Composition of and changes in the funds' net assets for the year ended June 30, 2018 were as follows:

Board-designated Fund I net assets, beginning of year	\$ 593,229
Contributions	300,000
Net appreciation	<u>19,141</u>
Board-designated Fund I net assets, end of year	<u>\$ 912,370</u>
Board-designated Fund II net assets, beginning of year	\$ 1,694,409
Contributions	1,699,607
Net appreciation	29,206
Amount appropriated for expenditure	<u>(1,500,000)</u>
Board-designated Fund II net assets, end of year	<u>\$ 1,923,222</u>

Note 9 - Mortgage loans receivable

Mortgage loans receivable are recorded at the present value of future payments using a discount rate provided by HFHI. The Organization considers all of the mortgage loans receivable at June 30, 2018 to be fully collectible; accordingly, no allowance for uncollectible accounts has been established.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 9 - Mortgage loans receivable, continued

Mortgage loans receivable at June 30, 2018 are scheduled for collection as follows:

Year ending <u>June 30,</u>	
2019	\$ 325,000
2020	317,000
2021	307,000
2022	288,000
2023	265,000
Thereafter	<u>2,896,996</u>
Total mortgage loans receivable	4,398,996
Less discount at rates of 7.39% to 8.48%	<u>(2,297,916)</u>
Present value of mortgage loans receivable	2,101,080
Current portion	<u>325,000</u>
Mortgage loans receivable, less current portion	<u>\$ 1,776,080</u>

At times, the Organization will enter into agreements for the sale of mortgage loans receivable. During the year ended June 30, 2018, the Organization entered into loan sale agreements for certain mortgage loans receivable with two financial institutions. Under the agreements the Organization sold mortgage loans with recourse totaling \$254,649 and without recourse totaling \$1,444,958 at the face value of the loans. The net proceeds from the sales totaling \$1,699,607 were used to fund board designated unrestricted net assets. At the time of the sales, the mortgage loans had unamortized discounts totaling \$955,307, resulting in a gain on the sale of mortgage loans receivable.

The loan sale agreements for sales with recourse contain clauses whereas for any sold mortgage loans receivable that become 90 days past due, the Organization must find a substitute mortgage loan receivable or repurchase the non-performing loan. The outstanding balance of mortgage loans receivable previously sold with repurchase clauses was approximately \$4,939,000 at June 30, 2018.

During the year ended June 30, 2018, the Organization was not required to substitute or repurchase any previously sold mortgage loans receivable. The Organization considers all of the mortgage loans receivable serviced at June 30, 2018 to be fully collectible; accordingly, no provision has been made for future losses that may result under the recourse arrangements.

The Organization continues to service previously sold mortgage loans receivable by collecting payments from homeowners on behalf of and remitting these payments to the purchasing financial institutions. Mortgage loans receivable serviced for others are not included in the accompanying statement of financial position. The unpaid principal balance of mortgage loans receivable serviced for others was approximately \$4,684,000 at June 30, 2018.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 9 - Mortgage loans receivable, continued

At June 30, 2018, the Organization had no mortgage loans receivable secured by a residential real estate property for which the Organization had begun formal foreclosure proceedings. At June 30, 2018, the Organization converted approximately \$67,000 of previously foreclosed residential real estate property to a rental property for the Almost Home program.

Note 10 - Rental properties, net

The Organization owns rental properties for use in the Almost Home program. Rental properties consist of the following at June 30, 2018:

Land	\$ 100,200
Rental houses	388,149
Construction in process	<u>13,709</u>
	502,058
Less accumulated depreciation	<u>(18,369)</u>
	<u>\$ 483,689</u>

Depreciation expense on the above assets was \$12,400 for the year ended June 30, 2018.

Note 11 - Line of credit

The Organization has a line of credit agreement with Nicolet National Bank with an available line of \$1,000,000 of which no amounts were outstanding at June 30, 2018. Interest is payable monthly at the prime rate (4.75% at June 30, 2018). Unpaid interest and principal are due April 27, 2019. The line is secured by mortgage loans receivable.

Note 12 - Notes payable

During the year ended June 30, 2018, the Organization received non-interest bearing notes from HFHI. These non-interest bearing notes were internally discounted using a rate of 3%. The discounts on these notes totaled \$4,272 and were included in in-kind contributions on the statement of activities. The discounts are amortized over the respective loan periods and are included in interest expense. During the year ended June 30, 2018, the Organization amortized \$12,200 of discounts related to these and other non-interest bearing notes.

Following is a summary of notes payable at June 30, 2018:

Habitat for Humanity International, Inc.:	
Shop fund non-interest bearing notes due in varying monthly principal installments totaling approximately \$6,385, under repayment terms of 48 months, unsecured	\$ 226,235

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 12 - Notes payable, continued

Nicolet National Bank:

Note payable, non-interest bearing, secured by specific mortgage loans receivable with principal payments due monthly based on scheduled principal payments of the underlying mortgage loans receivable (\$1,869 at June 30, 2018), with final principal payment due October 2023 \$ 97,177

Note payable due in monthly installments of \$1,250 plus accrued interest at ICS demand index plus 2.5% (2.78% at June 30, 2018), with a final payment of unpaid principal and interest due November 2018, secured by mortgage loans receivable 231,250

Community First Credit Union:

Note payable due in monthly installments of \$1,745, including interest at 2.95%, with a final payment of unpaid principal and interest due December 2020, secured by mortgage 285,803

Note payable due in monthly installments of \$3,313, including interest at 2.95%, with a final payment of unpaid principal and interest due June 2021, secured by mortgage 554,617

Note payable due in monthly installments of \$10,029, including interest at 2.95%, with a final payment of unpaid principal and interest due December 2022, secured by two mortgages 2,101,932

Fox Communities Credit Union:

Note payable, due in monthly installments of \$1,808, including interest at 2.99%, with a final payment of unpaid principal and interest due January 2019, secured by land 174,244

HFHI NMTC Sub-CDE I, LLC:

Note payable, semi-annual interest only payments through November 2023 at approximately 0.68%, then semi-annual payments of principal and interest through December 2044, secured by certain assets and rights of the Organization. The loan and security agreement contains certain debt covenants. Management believes the Organization was in compliance with these covenants at June 30, 2018. In addition, the loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. 1,662,577

Unamortized debt issuance costs (90,765)

5,243,070

Less discount at 3%-5% for non-interest bearing notes (20,618)

Net notes payable 5,222,452

Current maturities 598,637

Notes payable, less current maturities \$4,623,815

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 12 - Notes payable, continued

During the year ended June 30, 2018, \$3,341 of debt issuance costs were amortized to interest expense.

The future scheduled maturities for the five years succeeding June 30, 2018 for the above notes payable are as follows:

Year ending <u>June 30,</u>	
2019	\$ 598,637
2020	184,363
2021	903,450
2022	108,233
2023	1,872,927

Note 13 - Board-designated unrestricted net assets

The board-designated unrestricted net assets include the following at June 30, 2018:

Operating Reserve - The operating reserve includes funds designated for increased capacity to serve additional families in the upcoming year. The operating reserve is held entirely in cash in FDIC insured bank accounts.	\$ 220,463
Risk Reserve - The risk reserve includes funds designated to protect the Organization from unforeseen circumstances that may adversely impact its financial stability, ability to serve families or its sustainability. The risk reserve is held in the Fund I in the beneficial interest in assets held by Community Foundation (see Note 8).	912,370
Remainder Reserve - The remainder reserve includes a portion of the proceeds from sales of mortgage loans receivable in this year and prior years. One time per year, funds may be transferred from the remainder reserve to fund operations. The Board of Directors approval is required for additional transfers and for uses other than operations. The remainder reserve is held in the Fund II in the beneficial interest in assets held by Community Foundation (see Note 8).	<u>1,923,222</u>
Board-designated unrestricted net assets	<u>\$3,056,055</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 14 - Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Time restrictions:	
Contributions and grants receivable	\$ 294,305
Purpose restrictions:	
Neighborhood Revitalization program/Rock the Block®	893,607
Home construction	<u>10,000</u>
Temporarily restricted net assets	<u>\$ 1,197,912</u>

Note 15 - Multiple-employer defined contribution retirement plan

The Organization has a co-employment agreement with Insperity PEO Services, L.P. The Organization participated in the Insperity 401(k) Plan, which is a multi-employer, defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all the Organization's employees who work at least 1,000 hours during the plan year. The plan provides for a matching contribution by the Organization equal to 50% of the employee's contribution up to 3% of the employee's compensation. In addition, the plan provides for a non-elective contribution equal to 3% of the employee's compensation. For the year ended June 30, 2018, the Organization contributed \$64,397 to the plan.

Note 16 - Leases

The Organization leases store space and equipment under operating leases. These lease agreements provide for monthly rentals ranging from \$393 to \$7,400. Rent expense under these leases was \$120,638 for the year ended June 30, 2018. The leases for the store space and equipment expire in October 2023 and June 2021, respectively.

Future minimum lease payments under the terms of the noncancelable operating leases with initial terms of one year or more are approximately as follows:

Year ending	
<u>June 30,</u>	
2019	\$ 95,500
2020	96,500
2021	96,500
2022	93,800
2023	94,800
Thereafter	<u>31,600</u>
Total minimum payments required	<u>\$ 508,700</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 17 - Transactions with Habitat for Humanity International, Inc.

The Organization annually tithes 10% of its contributions (excluding restricted and in-kind contributions) and ReStore profits to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2018, the Organization tithed \$60,092 to HFHI. Of this amount, \$12,437 is in accounts payable at June 30, 2018.

U.S. affiliates are required to pay an annual fee to HFHI to offset a portion of the costs associated with efforts that benefit all affiliates - efforts such as brand protection and promotion, regulatory advocacy and gift-in-kind solicitation. For the year ended June 30, 2018, the Organization paid a fee of \$15,000 to HFHI.

HFHI receives grants from the United States Department of Housing and Urban Development (HUD) in the Self-Help Homeownership Opportunity Program (SHOP). For the year ended June 30, 2018, HFHI made \$187,500 of these grants available to the Organization to purchase land for development and necessary infrastructure improvements. Contributions and grants receivable includes \$193,058 related to this program at June 30, 2018.

The Organization had non-interest bearing notes payable with HFHI (see Note 12). During the year ended June 30, 2018, the Organization amortized \$7,373 of the discounts related to these non-interest bearing notes.

Note 18 - Functional classification of expenses

Expenses by function for the year ended June 30, 2018 was as follows:

Program services	\$ 7,313,376
Supporting activities:	
Management and general	374,374
Fundraising	<u>246,356</u>
	<u>\$ 7,934,106</u>

Note 19 - Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards have established a hierarchy of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets, Level 2 consists of inputs observable in the marketplace other than quoted prices in active markets for identical assets, and Level 3 consists of significant inputs unobservable in the marketplace.

The Organization's beneficial interest in assets held by Community Foundation is carried at fair value. The fair value is provided by the Foundation and consists of the right to receive cash flows from the Foundation. The fair value provided by the Foundation is considered a level 3 input. Fair value is determined by allocating a portion of the Foundation's investment pools.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2018

Note 19 - Fair value measurement, continued

The following is a reconciliation of beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2018:

Beginning balance - July 1, 2017	\$2,287,638
Purchases	1,999,607
Net gains, realized and unrealized, included in change in net assets	48,347
Distributions	<u>(1,500,000)</u>
Ending balance - June 30, 2018	<u>\$2,835,592</u>
Change in unrealized gains related to Level 3 assets still held at June 30, 2018	<u>\$ 48,347</u>

Note 20 - Option agreement

On August 19, 2015, the Organization's joint venture, HFHI NMTC Leverage Lender 2013-1, LLC (Leveraged Lender), entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the sole member of the HFHI Investment Fund 1, LLC (the Fund), which is the upstream effective owner of HFHI NMTC Sub-CDE I, LLC. Under this agreement, Leveraged Lender granted USBCDC an option (the Put) to sell all of its ownership interest in the Fund to Leveraged Lender for \$1,000 plus certain closing costs within 6 months following August 19, 2022. If USBCDC does not sell its ownership interest in the Fund to Leveraged Lender, Leveraged Lender will have the right and option (the Call) to purchase all of the ownership in the Fund within 12 months for the fair value of the ownership interest plus certain closing costs. Exercise of the option would effectively allow the Organization to extinguish its outstanding debt owed to HFHI NMTC Sub-CDE I, LLC.