

MADISON AREA CLT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

CONTENTS

Independent Auditor's Report	1
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Area CLT Corporation
Madison, Wisconsin

Opinion

We have audited the accompanying financial statements of Madison Area CLT Corporation (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Area CLT Corporation as of December 31, 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Area CLT Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Madison Area CLT Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Area CLT Corporation's ability to continue as a going concern for a reasonable period of time.

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

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
December 21, 2022

MADISON AREA CLT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 95,148
Accounts receivable	9,390
Promises to give	12,248
Prepaid expenses	2,481
Property held for sale	<u>429,271</u>

Total current assets 548,538

OTHER ASSETS

Notes receivable	36,106
Land held in trust	<u>2,185,274</u>

Total assets \$ 2,769,918

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 35,016
Accrued expenses	5,552
Refundable advance	29,446
Notes payable	<u>377,146</u>

Total current liabilities 447,160

LONG-TERM LIABILITIES

Deferred loans	<u>2,496,317</u>
----------------	------------------

Total liabilities 2,943,477

NET DEFICIT

Without donor restrictions	<u>(173,559)</u>
----------------------------	------------------

Total liabilities and net deficit \$ 2,769,918

See accompanying notes.

MADISON AREA CLT CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended December 31, 2021

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

REVENUES	
Contributions	
Contributions	\$ 22,033
Grants	30,374
Other revenue	
Rental income	49,214
Miscellaneous income	40
	<hr/>
Total revenues	101,661
EXPENSES	
Housing and stewardship	78,641
Management and general	21,955
Fundraising	3,141
	<hr/>
Total expenses	103,737
	<hr/>
Change in net deficit	(2,076)
Net deficit at beginning of year	<hr/> (171,483)
Net deficit at end of year	<hr/> \$ (173,559) <hr/>

See accompanying notes.

MADISON AREA CLT CORPORATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2021

	<u>Housing and Stewardship</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expense</u>
Personnel	\$ 47,966	\$ 7,058	\$ 2,353	\$ 57,377
Office	9,234	1,878	577	11,689
Property holding and maintenance	6,247	-	-	6,247
Professional fees	3,523	4,424	169	8,116
Rent assistance grants	6,925	-	-	6,925
Insurance	810	4,276	-	5,086
Travel, meetings, and events	3,538	139	-	3,677
Interest	-	3,485	-	3,485
Miscellaneous expenses	60	695	4	759
Marketing	338	-	38	376
Total expenses	<u>\$ 78,641</u>	<u>\$ 21,955</u>	<u>\$ 3,141</u>	<u>\$ 103,737</u>

See accompanying notes.

MADISON AREA CLT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net deficit	\$ (2,076)
Adjustments to reconcile change in net deficit to net cash flows from operating activities	
(Increase) decrease in assets	
Accounts receivable	2,387
Promises to give	(12,248)
Prepaid expenses	(1,630)
Increase in liabilities	
Accounts payable	34,696
Accrued expenses	3,545
Refundable advance	29,446
	54,120
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable	7,875
	61,995
Net change in cash	61,995
Cash at beginning of year	33,153
	\$ 95,148
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	\$ 3,484
Noncash investing and financing transactions	
Acquisitions of property held for resale and land trust	
Notes payable	\$ 377,146
Deferred loans	60,000
Cost of property held for resale	(429,271)
	\$ 7,875

See accompanying notes.

MADISON AREA CLT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Madison Area CLT Corporation (MACLT) is a community land trust that provides affordable homeownership opportunities to low and moderate-income and disadvantaged people in Dane County, Wisconsin. Troy Gardens Residential Parcel, LLC operates the Troy Gardens housing development project. Troy Gardens Conservancy Parcel, LLC holds 26 acres of land that is leased to Rooted WI, Inc. MACLT's primary sources of revenues are contributions, grants and land leases.

Principles of Consolidation

The consolidated financial statements include the accounts of MACLT and its wholly owned subsidiaries, Troy Gardens Residential Parcel, LLC and Troy Gardens Conservancy Parcel, LLC. All material intra-entity transactions have been eliminated.

Accounts Receivable

Accounts receivable consist of land leases from homeowners. Accounts receivable are reported at the amount management expects to collect from outstanding balances of renters. As of December 31, 2021, management has determined, based on historical experience that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. At December 31, 2021, all promises to give are receivable in less than one year.

Notes Receivable

Notes receivable consist of non-interest bearing notes due from individuals. The notes are not payable until the individuals sell the land trust homes that they currently own or certain other contingencies occur. The notes are secured by the land trust homes occupied by the individuals. Since repayment of the notes is not certain, the notes have not been discounted.

Property Held for Sale

Property held for sale is recorded at the lower of cost or estimated net realizable value and offered for sale. All architectural costs, construction costs, and other development and improvements costs made in preparation for the sale of the property are capitalized. Acquisitions are generally financed by short-term debt from financial institutions and the City of Madison and deferred loan debt from the City of Madison. Property held for sale consists of homes expected to be sold within one year of acquisition. At December 31, 2021, MACLT held two properties that were sold in 2022.

MADISON AREA CLT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land Held in Trust

Purchases of land are recorded at cost or, if donated, at the estimated fair value on the date of donation. Such donations are reported as support without restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, MACLT reports expiration of donor restrictions when the assets are placed in service, and reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Contributions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Grants

MACLT receives grants from government agencies and others that are conditioned upon MACLT incurring qualifying expenses. Revenue from these grants is generally recognized on a reimbursement basis, that is, when qualifying expenses are incurred by MACLT, both a receivable from the grantor agency and revenue are recorded. Grants are also generally restricted by the grantor for a specified purpose. Grants whose conditions and restrictions are met in the same reporting period that the revenue is recognized are reported as increases in net assets without grantor restrictions.

Rental income

MACLT's rental revenue consists of land leases to homeowners. MACLT recognizes revenue from land lease contracts ratably over the applicable contract period.

Income Tax Status

MACLT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Estimates

Management uses estimates and assumptions in preparing consolidated 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.

MADISON AREA CLT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, office, professional fees and miscellaneous expense, which are allocated on the basis of estimates of time and effort.

Housing and Stewardship—MACLT provides ongoing stewardship of homes and the land underneath them that are kept permanently affordable under the terms of the lease with the land trust. MACLT also stewards the land under market-rate homes as well as conservation and agricultural land.

As a Residential Land Trust MACLT works with not-for-profit and for-profit housing developers on new construction and/or rehabilitation of housing in Dane County. The affordability subsidy that often accompanies affordable home ownership development is preserved by the community land trust model where the MACLT will own title to the land underlying the house and the homeowner will mortgage title to the physical housing structure. MACLT receives government grants which are used to subsidize the cost of homeownership by decreasing the homebuyer's purchase price (acquisition subsidies).

MACLT leases the land back to the homeowner for \$40 to \$75 per month. When the homeowner sells the house, the homeowner receives the invested equity plus a percentage of any increase in property value. The increase in value rolls back into the affordability of the house allowing it to be sold to an income qualified low- to moderate-income household approved by MACLT.

Stewardship services include post-purchase support and education of low-income homeowners, services related to resale of homes in the land trust, enforcement of ground leases, development of policies to support homeowners in the program and maintenance of homes, and distribution of funds to MACLT homeowners from the City of Madison and Dane County. Other activities include homebuyer education and outreach, developing partnership opportunities with housing developers, housing rehabilitation, and general community outreach on the Community Land Trust model.

Management and general—Activities that relate to the overall direction of MACLT and include the functions necessary to ensure proper administrative functioning of the board of directors, manage the financial and budgetary responsibilities of MACLT, and perform other administrative functions.

Fundraising—Activities related to soliciting contributions from individuals, foundations, governments, and others, and other activities that involve inducing potential donors to contribute assets, services, or time to MACLT.

Date of Management's Review

Management has evaluated subsequent events through December 21, 2022, the date which the consolidated financial statements were available to be issued.

MADISON AREA CLT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

NOTE 2—CONDITIONAL PROMISES TO GIVE

MACLT has received grants from Dane County Department of Human Services and the City of Madison Community Development Division that are conditioned upon MACLT incurring qualifying expenses in its land trust housing program activities. At December 31, 2021, the remaining conditional grants total was approximately \$239,000. Support from these government sources is conditioned for support for homeowners land lease costs or reimbursement for minor home repair of homes in MACLT's affordable housing programs. The conditional grants will be recognized as revenue when the respective conditions are met in future years.

NOTE 3—DESCRIPTION OF LEASING ARRANGEMENTS

MACLT leases its land held in trust to various individuals and organizations to further its mission of providing low cost housing and access to open space for low-income individuals. Ground lease income for 2021 was \$49,214. Future minimum rentals are \$49,214 per year indefinitely.

MACLT leases office space under a one year lease agreement ending in December 2022. Annual rent is \$7,000. For the year ending December 31, 2021, rent expense was \$7,000.

NOTE 4—NOTES PAYABLE

Notes payable at December 31, 2021 consisted of the following:

4%, Prime rate plus 1%, note payable in monthly interest payments, the principal is due in two years or upon sale of the financed property; secured by the held for sale property	\$ 160,000
Interest free, forgivable note payable from the City of Madison; secured by the held for sale property	60,000
4%, Prime rate plus 1%, note payable in monthly interest payments, the principal is due in two years or upon sale of the financed property; secured by the held for sale property	<u>157,146</u>
Total notes payable	<u><u>\$ 377,146</u></u>

The forgivable note payable principal from the City of Madison is forgiven upon the sale of the acquired property to an income-qualified homebuyer or over fifteen years.

In February 2022, MACLT received an interest free, note forgivable payable of \$46,780 from the City of Madison for improvements on a held for sale property and a deferred loan of \$46,780 for the same acquisition. In October 2022, MACLT received two 2-year, interest-only, Prime rate plus 1%, notes payable of \$192,000 and \$200,000 for the acquisition two separate additional held for sale properties.

MADISON AREA CLT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021

NOTE 5—DEFERRED LOANS

MACLT received deferred loans from the City of Madison's Community Development Division. Housing land loans were issued as subsidies by the City of Madison to purchase and construct or rehabilitate homes, to sell the improvements to eligible homebuyers at or below 80% of the County Median Income, while MACLT retains ownership of the land as land held in trust. Repayment is unlikely under the current arrangement of ground leases between MACLT and the homeowner, and Land Use Restriction Agreements held by the City of Madison.

These loans are payable upon the sale or change of use of the respective property purchased with the loan proceeds. Upon the sale or change of use of a property, the note amount due will be a percentage of the fair market value of the property as outlined in each note agreement. Each note is secured by real estate in the City of Madison. Deferred loans at December 31, 2021 had the following balances:

Troy Gardens Housing Land	\$ 748,350
Troy Gardens Conservancy	153,429
Other housing land loans	<u>1,594,538</u>
Deferred loans	<u><u>\$ 2,496,317</u></u>

NOTE 6—LIQUIDITY AND AVAILABILITY

At December 31, 2021 MACLT has \$116,786, of financial assets available within one year of the date of the consolidated statement of financial position to meet cash needs for general expenditures consisting of cash of \$95,148 and receivables of \$21,638.

As part of MACLT's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.