

Milwaukee Habitat for Humanity, Inc. and Subsidiary

Financial Report

June 30, 2022

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Habitat for Humanity, Inc. and Subsidiary'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 Milwaukee Habitat for Humanity, Inc. and Subsidiary'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.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

October 17, 2022

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Cash and cash equivalents	\$ 3,020,007	4,165,085
Cash and cash equivalents - designated for loan recourse	497,900	514,500
Total cash and cash equivalents	3,517,907	4,679,585
Accounts receivable	3,884	5,574
Unconditional promises to give, short-term	1,083,634	874,503
Current maturities of loans receivable - home preservation	0	636
Homeowners' escrow receivable	85,094	91,065
Current maturities of mortgage notes receivable	639,000	687,000
Prepaid expenses	17,660	88,709
Warehouse and ReStore inventory	564,124	660,905
Total current assets	5,911,303	7,087,977
RESTRICTED ASSETS		
Homeowners' escrow	1,392	666
Restricted cash - special projects	118,050	199,558
New markets tax credit restricted cash	43,660	57,448
Total restricted assets	163,102	257,672
OTHER ASSETS		
Investments	8,019,922	0
New markets tax credit - investments	1,335,241	1,335,241
New markets tax credit - other asset/guaranty fee	43,660	57,448
Inventory of properties, net of valuation allowance of \$366,000 and \$509,000 as of June 30, 2022 and 2021, respectively	1,938,632	2,055,005
Unconditional promises to give, net, long-term	146,575	463,572
Mortgage notes receivable, net of allowance for doubtful accounts of \$36,000 and \$45,000 as of June 30, 2022 and 2021, respectively	3,092,647	3,223,370
Loans receivable - bridge loan program	5,533	5,884
Loans receivable - critical home repair program	359,950	312,608
Property and equipment, net	3,523,784	3,409,521
Website development costs, net	7,059	10,999
Land held for investment	347,750	393,329
Total other assets	18,820,753	11,266,977
TOTAL ASSETS	\$ 24,895,158	\$ 18,612,626

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 394,069	279,907
Current maturities of notes payable	44,001	157,398
Accrued expenses	888,078	220,480
Environmental remediation liability	273,169	300,000
Deferred revenue, new markets tax credit	43,660	57,448
Deferred revenue, other	0	6,500
Refundable advance	85,112	32,675
	<u>1,728,089</u>	<u>1,054,408</u>
Total current liabilities	1,728,089	1,054,408
LONG-TERM LIABILITIES		
Notes payable, less current maturities	242,559	619,589
Loan payable, net	1,825,857	1,822,316
	<u>2,068,416</u>	<u>2,441,905</u>
Total long-term liabilities	2,068,416	2,441,905
TOTAL LIABILITIES	3,796,505	3,496,313
NET ASSETS		
Net assets without donor restrictions	19,741,301	13,558,752
Net assets with donor restrictions	1,357,352	1,557,561
	<u>21,098,653</u>	<u>15,116,313</u>
Total net assets	21,098,653	15,116,313
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,895,158</u>	<u>\$ 18,612,626</u>

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, 2022

	Without donor restrictions	With donor restrictions	Total
Changes in net assets:			
Public support, revenue and gains:			
Contributions	\$ 7,992,261	\$ 714,428	\$ 8,706,689
Grant Income	1,107,602	0	1,107,602
In-kind contribution - other	0	0	0
Donated goods and services	479,149	0	479,149
Special events	733,019	0	733,019
Late fee income	7,366	0	7,366
Sale of properties	3,055,427	0	3,055,427
Net realizable value adjustment - inventory of properties	143,000	0	143,000
Mortgage discount amortization	433,611	0	433,611
Investment return, net	(580,077)	0	(580,077)
Other investment income	13,817	0	13,817
ReStore retail sales	3,524,727	0	3,524,727
ReStore donations, in-kind	2,855,038	0	2,855,038
Loss on sale of property and equipment	(45,579)	0	(45,579)
Critical home repairs income	229,686	0	229,686
Miscellaneous	25,032	0	25,032
Gain from extinguishment of debt	0	0	0
Net assets released from restrictions	914,637	(914,637)	0
Total public support, revenue and gains	20,888,716	(200,209)	20,688,507
Expenses and losses:			
Program services:			
Homebuilding	7,644,719	0	7,644,719
ReStore	5,756,789	0	5,756,789
Total program services	13,401,508	0	13,401,508
Supporting services:			
Management and general	563,457	0	563,457
Fundraising	741,202	0	741,202
Total supporting services	1,304,659	0	1,304,659
Total expenses	14,706,167	0	14,706,167
Environmental remediation loss	0	0	0
Total expenses and losses	14,706,167	0	14,706,167
Change in net assets	6,182,549	(200,209)	5,982,340
Net assets, beginning	13,558,752	1,557,561	15,116,313
Net assets, ending	\$ 19,741,301	\$ 1,357,352	\$ 21,098,653

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 return, net	0	0	0
Other investment income	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	<u>\$ 13,558,752</u>	<u>\$ 1,557,561</u>	<u>\$ 15,116,313</u>

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, 2022

	Program services			Supporting services			Total expenses
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:							
Salaries, payroll taxes and fringe benefits	\$ 1,400,810	\$ 1,083,203	\$ 2,484,013	\$ 456,353	\$ 497,411	\$ 953,764	\$ 3,437,777
Professional fees	42,892	330,882	373,774	0	0	0	373,774
Insurance	8,830	204,330	213,160	36,487	2,432	38,919	252,079
Staff travel and development	3,752	7,942	11,694	7,708	6,839	14,547	26,241
Occupancy	513,664	109,580	623,244	12,894	6,446	19,340	642,584
Audit/accounting	0	0	0	23,900	0	23,900	23,900
Office supplies	8,702	1,069	9,771	3,921	283	4,204	13,975
Printing and publications	2,168	2,620	4,788	2,449	37,336	39,785	44,573
Telephone	32,505	28,509	61,014	1,923	1,602	3,525	64,539
Equipment/maintenance	9,505	5,202	14,707	681	310	991	15,698
Database management	24,985	48,591	73,576	9,718	6,479	16,197	89,773
Completed project costs/cost of sales on properties	0	4,553,610	4,553,610	0	0	0	4,553,610
ReStore cost of sales	2,825,000	0	2,825,000	0	0	0	2,825,000
Volunteer expenses	8,175	24,129	32,304	0	0	0	32,304
Special events	0	6,511	6,511	0	3,185	3,185	9,696
Promotions and advertising	90,376	16,767	107,143	0	31,175	31,175	138,318
Interest expense	11,108	16,857	27,965	1,889	0	1,889	29,854
Bank and credit card fees	65,098	1,294	66,392	1,226	11,032	12,258	78,650
Sales tax	180,367	0	180,367	0	0	0	180,367
AmeriCorps	0	95,247	95,247	0	0	0	95,247
Depreciation	113,020	86,549	199,569	1,149	1,149	2,298	201,867
Postage and shipping	0	3,947	3,947	790	3,158	3,948	7,895
Fundraising	0	0	0	0	130,694	130,694	130,694
Bad debt expense	0	(8,732)	(8,732)	0	0	0	(8,732)
Cost of goods sold	412,983	0	412,983	0	0	0	412,983
Miscellaneous	2,849	100,012	102,861	2,369	1,671	4,040	106,901
National affiliate/Global Village	0	926,600	926,600	0	0	0	926,600
Total expenses	<u>\$ 5,756,789</u>	<u>\$ 7,644,719</u>	<u>\$ 13,401,508</u>	<u>\$ 563,457</u>	<u>\$ 741,202</u>	<u>\$ 1,304,659</u>	<u>14,706,167</u>

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			Total expenses
	ReStore	Homebuilding	Total program services	Management and general	Fundraising	Total supporting services	
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 STATEMENTS OF CASH FLOWS
Years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,982,340	\$ 1,479,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	(9,000)	(10,000)
Depreciation	201,867	161,832
Amortization of debt issuance costs	3,541	3,539
Mortgage discount amortization	(433,611)	(407,334)
Loss on sale of property and equipment	45,579	22,106
Net realized and unrealized losses on investments, net	580,077	0
Gain from extinguishment of debt	0	(494,400)
Valuation allowance for loss on homes	(143,000)	(153,000)
Increase (decrease) in cash due to changes in:		
Accounts receivable	1,690	11,242
Unconditional promises to give	107,866	(118,604)
Escrow receivable	5,971	19,087
Prepaid expenses	71,049	(48,333)
Inventory	22,517	71,655
New markets tax credit - other asset/guaranty fee	13,788	13,787
Accounts payable	114,162	128,212
Accrued expenses	667,598	129,785
Accrued remediation liability	(26,831)	300,000
Deferred revenue	(20,288)	3,659
Refundable advance	52,437	0
	7,237,752	1,113,012
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(312,190)	(1,700,233)
Collections on mortgage notes receivable	777,094	834,435
Collections on home preservation loans receivable	636	1,108
Collections on bridge loans receivable	351	631
Issuance of critical home repair loans receivables	(47,342)	(629)
Purchase of investment securities	(22,056,963)	0
Proceeds from sale/maturity of investments	13,456,964	0
Proceeds from sale of mortgage notes	177,877	321,470
	(8,003,573)	(543,218)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	66,188	920,000
Principal payments on notes payable	(556,615)	(421,651)
	(490,427)	498,349

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in cash, cash equivalents, and restricted cash	\$ (1,256,248)	\$ 1,068,143
Cash, cash equivalents, and restricted cash:		
Beginning	<u>4,937,257</u>	<u>3,869,114</u>
Ending	<u>\$ 3,681,009</u>	<u>\$ 4,937,257</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 3,517,907	\$ 4,679,585
Restricted cash	<u>163,102</u>	<u>257,672</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 3,681,009</u>	<u>\$ 4,937,257</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 26,313</u>	<u>\$ 35,956</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of mortgage notes receivable for sale of houses	<u>\$ 333,637</u>	<u>\$ 389,452</u>
Forgiveness of Paycheck Protection Program loan	<u>\$ 0</u>	<u>\$ 494,400</u>

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

NOTE A -- Nature of business and significant accounting policies

Nature of business

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

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

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

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

A summary of significant accounting policies follows:

Basis of accounting

The financial statements of the organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation

Under accounting principles generally accepted in the United States of America (U.S. GAAP), the organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions have been limited by donor-imposed time or purpose restrictions or are required to be maintained in perpetuity. Included in net assets without donor restrictions are voluntary board-approved designations for specific purposes, projects, or investments.

Consolidation policy

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

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

Exempt status

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

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

Cash and cash equivalents

For purposes of reporting cash flows, the organization considers all investments purchased with a maturity of three months or less to be cash equivalents.

The organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

The organization considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If amounts become uncollectible, they will be charged to operations when that determination is made. Accounts receivable are not interest-bearing. A receivable is considered past due if payments have not been received by the organization after 30 days.

Promises to give

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Conditional promises to give are those that contain a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend on have been met.

Inventories

The warehouse inventory consists of donated items which will be used in construction. This inventory has been valued at the estimated net realizable value of the inventory on hand at year-end. ReStore inventory consists of donated items or items purchased by the organization for sale within the ReStores. These items are valued at the estimated selling price of the donation in the period received or cost of the purchased asset on the first-in, first-out (FIFO) method.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

Inventory of properties

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

	<u>2022</u>	<u>2021</u>
Completed homes	\$ 83,613	\$ 173,309
Homes under construction	2,221,019	2,390,696
Valuation allowance	<u>(366,000)</u>	<u>(509,000)</u>
	<u>\$ 1,938,632</u>	<u>\$ 2,055,005</u>

Mortgages receivable

In furtherance of its charitable purpose, the organization sells the homes it builds and rehabilitates to qualified applicants for affordable rate mortgage notes. The value of these notes is then discounted to give the organization credit for the value of interest not being charged to homeowners. Scheduled mortgage payments range from \$100 to \$800 per month with maturities ranging from 20 to 30 years. Management provides an allowance for doubtful mortgage notes receivable based on an assessment of historical collectability, the status of individual mortgage notes, and the value of the collateral. One past due mortgage payment initiates delinquent status of a note and results in the organization initiating collection procedures in accordance with the organization's policies.

Loans receivable

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

Investments

Investments consist of money market funds, U.S. government and U.S. agency obligations, corporate bonds, other fixed income and exchange traded funds which are reported at fair value.

Gains and losses on dispositions are accounted for on the specific identification basis. Unrealized gains and losses represent the net change in fair value of the investments held during the period. Net realized and unrealized gains and losses are included in the statements of activities.

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).

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

Property and equipment

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

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

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Capitalization policy

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

Impairment of long-lived assets

The organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

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, 2022 and 2021, 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 \$3,541 and \$3,539 for the years ended June 30, 2022 and 2021, respectively.

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.

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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

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).

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 and exchange portion of revenue included in special events on the statements of activities is not material to the financial statements for the years ended June 30, 2022 and 2021, respectively.

In-kind contributions

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

	<u>2022</u>	<u>2021</u>
Construction materials	\$ 279,654	\$ 140,340
Professional services	<u>199,495</u>	<u>211,187</u>
Total donated goods and services	479,149	351,527
Inventory – ReStore donations	2,855,038	2,391,918
House (in-kind contributions – other)	<u>0</u>	<u>550,174</u>
	<u>\$ 3,334,187</u>	<u>\$ 3,293,619</u>

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

The organization receives donated construction materials for use in home rehabilitation and for sale at the ReStore. The organization has elected to value goods at the estimated fair market value. The estimated fair value of the goods is based on prior year sales data for each particular item. In-kind donated goods, including ReStore donations, for the years ended June 30, 2022 and 2021 totaled \$3,134,692 and \$2,532,258, respectively.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

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

Donated professional 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 based on current market rates for legal services, totaled \$199,495 and \$211,187 for the years ended June 30, 2022 and 2021, 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.

The organization was given a house at no cost to the organization, but based on an appraisal and settlement statement, the organization would have paid \$0 and \$550,174 for the years ended June 30, 2022 and 2021, respectively.

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

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 \$138,318 and \$121,458 for the years ended June 30, 2022 and 2021, 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.

Subsequent events

These financial statements have not been updated for subsequent events occurring after October 17, 2022, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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

New accounting standard adopted

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

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

Accounting standards updates

Leases (ASC 842)

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

Measurement of Credit Losses on Financial Instruments

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 Year ended June 30, 2022

NOTE B -- Investments

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and such changes could be material in relation to amounts reported in the statements of financial position.

The fair value measurement for the categories of assets that are measured at fair value on a recurring basis are as follows:

	<u>06/30/22</u>	<u>Fair value measurement using</u>		
		<u>Quoted prices in active markets for identical inputs (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
<u>Assets</u>				
Money market funds ¹	\$ 276,220	\$ 276,220	\$ 0	\$ 0
Fixed income funds				
Corporate bonds ¹	397,180	397,180	0	0
U.S. government and U.S. agency obligations ¹	2,298,742	2,298,742	0	0
Equity mutual funds ¹	1,349,847	1,349,847	0	0
Exchange traded funds ¹	<u>3,697,932</u>	<u>3,697,932</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 8,019,922</u>	<u>\$ 8,019,922</u>	<u>\$ 0</u>	<u>\$ 0</u>

1. The carrying amount reported approximates fair value because the values are derived from quoted prices in active markets for identical assets.

FASB 820-10-50, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

NOTE B -- Investments (Continued)

Investment return, net consists of the following for the years ended June 30,

	<u>2022</u>
Interest and dividend income on investments	\$ 33,615
Net unrealized losses	(613,725)
Net realized gains	1,189
Investment fees	<u>(1,156)</u>
Total investment return, net	<u>\$ (580,077)</u>

NOTE C -- Mortgage notes receivable

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

	<u>2022</u>	<u>2021</u>
Gross mortgage notes receivable	\$ 7,338,413	\$ 7,959,746
Less: unamortized mortgage discounts	(3,570,766)	(4,004,376)
Less: allowance for doubtful mortgage notes	<u>(36,000)</u>	<u>(45,000)</u>
Net mortgage notes receivable	3,731,647	3,910,370
Less: current portion of mortgage notes receivable	<u>(639,000)</u>	<u>(687,000)</u>
Net mortgage notes receivable, less current maturities	<u>\$ 3,092,647</u>	<u>\$ 3,223,370</u>

The unamortized discount is the difference between the face amount of the mortgage notes and their present value discounted at a compound interest amount. The discount rates used were 7.49% and 7.23% in 2022 and 2021, 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 \$640,000 for each of the next five years, with maturities through 2045.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

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, 2022 and 2021, mortgages represented 15% and 21% of total assets, respectively.

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

	2022	2021
Beginning of year	\$ 45,000	\$ 55,000
Decreases	(9,000)	(10,000)
End of year	\$ 36,000	\$ 45,000

The credit quality indicator is based on days delinquent.

As of June 30, 2022, the following mortgages and amounts were considered past due:

	Number of delinquent mortgages	Principal balance
30 - 59 days	6	\$ 159,425
60 - 89 days	4	68,997
90 - 119 days	2	48,246
Over 120 days	28	799,487

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

NOTE E -- Unconditional promises to give

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

	2022	2021
Unconditional promises to give	\$ 1,239,302	\$ 1,358,003
Less: present value discount	9,093	19,928
Net unconditional promises to give	1,230,209	1,338,075
Less: unconditional promises to give in one to five years	146,575	463,572
Unconditional promises to give in less than one year	\$ 1,083,634	\$ 874,503

Unconditional promises to give in less than one year are measured at net realizable value which approximates fair value. Unconditional promises to give expected to be received after one year were discounted at a rate of 4.75% and 3.50% as of June 30, 2022 and 2021, 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, 2022 and 2021 were \$85,094 and \$91,065, 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 \$497,900 and \$514,500 as of June 30, 2022 and 2021, 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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

NOTE G -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,314,473	\$ 1,314,473
Buildings	1,421,012	1,421,012
Building improvements	1,520,046	1,281,058
Vehicles	169,344	113,400
Equipment	143,106	143,106
Computer equipment	<u>110,783</u>	<u>103,233</u>
	4,678,764	4,376,282
Less accumulated depreciation	<u>1,154,980</u>	<u>966,761</u>
	<u>\$ 3,523,784</u>	<u>\$ 3,409,521</u>

NOTE H -- Notes payable

Notes payable consist of the following:

	<u>2022</u>	<u>2021</u>
Noninterest-bearing notes payable to Habitat for Humanity International, Inc.; due in monthly payments ranging from \$338 to \$776; maturing no later than June 30, 2028; the notes are uncollateralized.	\$ 106,383	\$ 53,263
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.	6,973	9,276
Unsecured notes payable to Neighborhood Improvement Development Corp.; due in monthly payments ranging from \$957 to \$996; maturing January 31, 2031; the notes bear interest at a rate of 1%.	173,204	200,751
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; loan was paid off on February 8, 2022.	<u>0</u>	<u>513,697</u>
	286,560	776,987
Less current maturities	<u>44,001</u>	<u>157,398</u>
	<u>\$ 242,559</u>	<u>\$ 619,589</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

NOTE H -- Notes payable (Continued)

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

Year ending June 30,

2023	\$ 44,001
2024	49,555
2025	54,157
2026	49,982
2027	45,391
Thereafter	<u>43,474</u>
	<u>\$ 286,560</u>

NOTE I -- Loan payable, net

Loan payable, net consist of the following:

	<u>2022</u>	<u>2021</u>
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 \$92,637 and \$96,178 as of June 30, 2022 and 2021, respectively; interest expense totaled \$13,316 and \$13,318 for the years ended June 30, 2022 and 2021, respectively.	<u>1,918,494</u>	<u>1,918,494</u>
	1,918,494	1,918,494
Less unamortized debt issuance costs	<u>92,637</u>	<u>96,178</u>
	<u>\$ 1,825,857</u>	<u>\$ 1,822,316</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

NOTE I -- Loan payable, net (Continued)

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

Year ending June 30,

2023	\$	0
2024		0
2025		0
2026		75,433
2027		75,957
Thereafter		<u>1,767,104</u>
	\$	<u><u>1,918,494</u></u>

NOTE J -- Line of credit

The organization has a \$500,000 unsecured line of credit. There were no amounts outstanding on the line at June 30, 2022 and 2021. Effective February 17, 2021, the interest rate is variable based on the prime rate with a floor of 3.50% (4.75% and 3.5% as of June 30, 2022 and 2021, respectively). 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, 2023.

NOTE K -- Net assets with donor restrictions

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

	<u>2022</u>	<u>2021</u>
Internship program	\$ 38,654	\$ 71,326
Air conditioners	8,361	47,855
Critical housing	24,295	50,000
Emergency mortgage relief	0	3,317
Pantry stocking	614	2,060
Gifts for homeowners	0	25,000
Tax foreclosure prevention	20,721	0
Tools	638	0
Solar panels	14,686	0
Education support	1,500	0
Warehouse supplies and construction tools	8,581	0
Time restrictions on unconditional promises to give	<u>1,239,302</u>	<u>1,358,003</u>
	<u>\$ 1,357,352</u>	<u>\$ 1,557,561</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

NOTE L -- Operating leases

The organization has an operating lease with a third party for the West ReStore location. The lease required monthly payments ranging from \$8,559 to \$9,834 and was set to expire in March 2022. The lease was amended effective August 1, 2021. The amended lease requires monthly payments ranging from \$9,595 to \$21,930 and expires July 31, 2031. 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, 2022 and 2021, totaled \$231,877 and \$145,971, 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, 2022 and 2021, totaled \$0 and \$47,296, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2023	\$	222,402
2024		226,850
2025		231,387
2026		236,015
2027		240,735
Thereafter		<u>1,033,990</u>
	\$	<u>2,191,379</u>

NOTE M -- Related party transactions

With respect for and in support of Habitat for Humanity International Inc., the organization voluntarily provides a tithe of the undesignated public support it received in the prior year. This is used by the international organization for providing housing for the poor around the world. For the years ended June 30, 2022 and 2021, the amount of the tithe expense totaled \$926,600 and \$250,049, respectively.

Habitat for Humanity International Inc. receives contributions on behalf of the organization. For the years ended June 30, 2022 and 2021, the amount of these contributions passed through to the organization from Habitat for Humanity International Inc. totaled \$109,167 and \$152,405, 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 \$40,009 and \$34,544 for years ended June 30, 2022 and 2021, respectively.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2022

NOTE O -- NMTC investments

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 \$1,335,241 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.

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, 2022 and 2021. Determining whether an observed transaction is similar to a security within the organization's portfolio requires judgment based on the rights and obligations of the securities. Recording upward and downward adjustments to the carrying value of the organization's investments in nonmarketable equity securities as a result of observable price changes requires quantitative assessment of the fair value of the organization's investments using various valuation methodologies and involves the use of estimates.

Nonmarketable equity securities under the measurement alternative are also assessed for impairment. When the qualitative assessment indicates that impairment exists, the investment is written down, with impairment recognized in the statement of activities. No impairment was recognized for the years ended June 30, 2022 and 2021.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2022

NOTE P -- Availability of financial assets and liquidity

The organization receives contributions with donor restrictions to be used in accordance with the associated purpose or time restriction. When a donor's restriction requires resources to be used in a particular manner or in a future period, the organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the organization's liquidity management, its policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the organization can draw upon \$500,000 of the available line of credit (as further discussed in Note J).

	<u>2022</u>	<u>2021</u>
Cash	\$ 3,020,007	\$ 4,165,085
Accounts receivable	3,884	5,574
Unconditional promises to give	1,083,634	874,503
Loan receivable	0	1,000
Mortgage notes receivable	639,000	687,000
Escrow receivable	<u>85,094</u>	<u>91,065</u>
Financial assets available within one year	<u>\$ 4,831,619</u>	<u>\$ 5,824,227</u>

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. The organization estimates the total cost of the remediation will total approximately \$300,000. As of June 30, 2022 and 2021, accrued environmental remediation liability was \$273,169 and \$300,000, respectively. Environmental remediation expenses totaled \$0 and \$300,000 for the years ended June 30, 2022 and 2021, respectively.