

Milwaukee Habitat for Humanity, Inc. and Subsidiary

Financial Report

June 30, 2023



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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

Report on the Audit of the Financial Statements

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, 2023 and 2022, 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, 2023 and 2022, 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. For the year ended June 30, 2023, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note A to the financial statements, the entity adopted new accounting guidance with respect to leases in 2023, as required by the provisions of FASB Accounting Standards Update 2016-02. Our opinion is not modified with respect to this matter.

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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.

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 and *Government 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 and *Government 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023, on our consideration of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting and compliance.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

October 18, 2023

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Cash and cash equivalents	\$ 2,927,124	3,020,007
Cash and cash equivalents - designated for loan recourse	453,500	497,900
Total cash and cash equivalents	3,380,624	3,517,907
Accounts receivable	4,384	3,884
Unconditional promises to give, short-term	1,070,505	843,494
Grants receivable	913,588	240,140
Homeowners' escrow receivable	58,641	85,094
Current maturities of mortgage notes receivable	623,000	639,000
Prepaid expenses	85,568	17,660
Warehouse and ReStore inventory	688,504	564,124
Total current assets	6,824,814	5,911,303
RESTRICTED ASSETS		
Homeowners' escrow	1,586	1,392
Restricted cash - special projects	158,637	118,050
New markets tax credit restricted cash	29,873	43,660
Total restricted assets	190,096	163,102
OTHER ASSETS		
Investments	8,571,690	8,019,922
New markets tax credit - investments	1,335,241	1,335,241
New markets tax credit - other asset/guaranty fee	29,873	43,660
Inventory of properties, net of valuation allowance of \$790,000 and \$366,000 as of June 30, 2023 and 2022, respectively	2,439,764	1,938,632
Unconditional promises to give, net, long-term	122,141	146,575
Mortgage notes receivable, net of allowance for doubtful accounts of \$36,000 as of June 30, 2023 and 2022	2,795,185	3,092,647
Loans receivable - bridge loan program	3,242	5,533
Loans receivable - critical home repair program	405,069	359,950
Property and equipment, net	3,554,384	3,523,784
Website development costs, net	3,119	7,059
Land held for investment	347,750	347,750
Operating lease right-of-use assets	1,831,256	0
Finance lease right-of-use assets	101,820	0
Total other assets	21,540,534	18,820,753
TOTAL ASSETS	\$ 28,555,444	\$ 24,895,158

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, 2023 and 2022

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 777,559	394,069
Current maturities of notes payable	59,974	44,001
Accrued expenses	239,760	888,078
Environmental remediation liability	250,544	273,169
Deferred revenue, new markets tax credit	29,873	43,660
Refundable advance	88,486	85,112
Current portion of operating lease liabilities	201,421	0
Current portion of finance lease liabilities	10,422	0
	1,658,039	1,728,089
LONG-TERM LIABILITIES		
Notes payable, less current maturities	218,331	242,559
Loan payable, net	1,829,397	1,825,857
Operating lease liabilities, less current portion	1,648,686	0
Finance lease liabilities, less current portion	92,260	0
	3,788,674	2,068,416
TOTAL LIABILITIES	5,446,713	3,796,505
NET ASSETS		
Net assets without donor restrictions	20,832,001	19,741,301
Net assets with donor restrictions	2,276,730	1,357,352
	23,108,731	21,098,653
TOTAL LIABILITIES AND NET ASSETS	\$ 28,555,444	\$ 24,895,158

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, 2023

	Without donor restrictions	With donor restrictions	Total
Changes in net assets:			
Public support, revenue and gains:			
Contributions	\$ 1,697,469	\$ 1,845,708	\$ 3,543,177
Grant income	2,489,542	0	2,489,542
Donated goods and services	544,807	0	544,807
Special events	760,062	0	760,062
Late fee income	5,953	0	5,953
Sale of properties	3,480,406	0	3,480,406
Net realizable value adjustment - inventory of properties	(424,000)	0	(424,000)
Mortgage discount amortization	422,546	0	422,546
Investment return, net	551,767	0	551,767
Other investment income	27,788	0	27,788
ReStore retail sales	3,850,838	0	3,850,838
ReStore donations, in-kind	3,129,386	0	3,129,386
Critical home repairs income	238,397	0	238,397
Miscellaneous	154,209	0	154,209
Net assets released from restrictions	926,330	(926,330)	0
Total public support, revenue and gains	17,855,500	919,378	18,774,878
Expenses:			
Program services:			
Homebuilding	9,159,541	0	9,159,541
ReStore	6,135,777	0	6,135,777
Total program services	15,295,318	0	15,295,318
Supporting services:			
Management and general	647,552	0	647,552
Fundraising	821,930	0	821,930
Total supporting services	1,469,482	0	1,469,482
Total expenses	16,764,800	0	16,764,800
Change in net assets	1,090,700	919,378	2,010,078
Net assets, beginning	19,741,301	1,357,352	21,098,653
Net assets, ending	<u>\$ 20,832,001</u>	<u>\$ 2,276,730</u>	<u>\$ 23,108,731</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
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
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:			
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
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	<u>\$ 19,741,301</u>	<u>\$ 1,357,352</u>	<u>\$ 21,098,653</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, 2023

	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	\$ 1,463,102	\$ 1,364,679	\$ 2,827,781	\$ 485,128	\$ 510,009	\$ 995,137	\$ 3,822,918
Professional fees	33,425	413,254	446,679	0	0	0	446,679
Insurance	4,222	252,171	256,393	45,030	3,002	48,032	304,425
Staff travel and development	5,494	16,262	21,756	8,301	3,622	11,923	33,679
Occupancy	579,641	155,192	734,833	35,987	9,134	45,121	779,954
Audit/accounting	0	0	0	25,800	0	25,800	25,800
Office supplies	12,513	2,435	14,948	3,701	1,253	4,954	19,902
Printing and publications	4,384	470	4,854	3,615	29,301	32,916	37,770
Telephone	32,234	33,155	65,389	2,235	1,863	4,098	69,487
Equipment/maintenance	5,634	5,121	10,755	671	305	976	11,731
Database management	23,373	98,459	121,832	19,692	13,128	32,820	154,652
Completed project costs/cost of sales on properties	0	6,128,427	6,128,427	0	0	0	6,128,427
ReStore cost of sales	3,122,000	0	3,122,000	0	0	0	3,122,000
Volunteer expenses	6,076	28,639	34,715	0	0	0	34,715
Special events	0	8,346	8,346	1,440	9,529	10,969	19,315
Promotions and advertising	107,955	7,077	115,032	1,028	37,594	38,622	153,654
Interest expense	0	16,857	16,857	3,597	0	3,597	20,454
Bank and credit card fees	74,409	50	74,459	1,337	12,037	13,374	87,833
Sales tax	193,806	0	193,806	0	0	0	193,806
AmeriCorps	0	80,330	80,330	0	0	0	80,330
Depreciation	122,396	105,859	228,255	1,613	1,613	3,226	231,481
Postage and shipping	43	4,580	4,623	916	3,664	4,580	9,203
Fundraising	0	0	0	0	182,226	182,226	182,226
Cost of goods sold	341,827	0	341,827	0	0	0	341,827
Miscellaneous	3,243	96,178	99,421	7,461	3,650	11,111	110,532
National affiliate/Global Village	0	342,000	342,000	0	0	0	342,000
Total expenses	\$ 6,135,777	\$ 9,159,541	\$ 15,295,318	\$ 647,552	\$ 821,930	\$ 1,469,482	16,764,800

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	\$ 5,756,789	\$ 7,644,719	\$ 13,401,508	\$ 563,457	\$ 741,202	\$ 1,304,659	\$ 14,706,167

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,010,078	\$ 5,982,340
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	0	(9,000)
Depreciation	231,481	201,867
Amortization of operating lease right-of-use assets	214,345	0
Amortization of finance lease right-of-use assets	2,483	0
Amortization of debt issuance costs	3,540	3,541
Mortgage discount amortization	(422,546)	(433,611)
Loss on sale of property and equipment	0	45,579
Net realized and unrealized losses (gains) on investments, net	(297,860)	580,077
Valuation allowance for loss on homes	424,000	(143,000)
Increase (decrease) in cash due to changes in:		
Accounts receivable	(500)	1,690
Unconditional promises to give	(202,577)	348,006
Grants receivable	(673,448)	(240,140)
Homeowners' escrow receivable	26,453	5,971
Prepaid expenses	(67,908)	71,049
Inventory	(1,090,598)	22,517
New markets tax credit - other asset/guaranty fee	13,787	13,788
Accounts payable	383,490	114,162
Accrued expenses	(648,318)	667,598
Environmental remediation liability	(22,625)	(26,831)
Deferred revenue	(13,787)	(20,288)
Refundable advance	3,374	52,437
Operating lease liabilities	(195,494)	0
Net cash provided by (used in) operating activities	(322,630)	7,237,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(258,141)	(312,190)
Collections on mortgage notes receivable	777,094	777,094
Collections on home preservation loans receivable	0	636
Collections on bridge loans receivable	2,291	351
Issuance of critical home repair loans receivables	(45,119)	(47,342)
Purchase of investment securities	(6,989,897)	(22,056,963)
Proceeds from sale/maturity of investments	6,735,989	13,456,964
Proceeds from sale of mortgage notes	0	177,877
Net cash provided by (used in) investing activities	222,217	(8,003,573)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	35,860	66,188
Principal payments on notes payable	(44,115)	(556,615)
Principal payments on financing lease liabilities	(1,621)	0
Net cash used in financing activities	(9,876)	(490,427)

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Change in cash, cash equivalents, and restricted cash	\$ (110,289)	\$ (1,256,248)
Cash, cash equivalents, and restricted cash:		
Beginning	<u>3,681,009</u>	<u>4,937,257</u>
Ending	<u>\$ 3,570,720</u>	<u>\$ 3,681,009</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 3,380,624	\$ 3,517,907
Restricted cash	<u>190,096</u>	<u>163,102</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 3,570,720</u>	<u>\$ 3,681,009</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 16,914</u>	<u>\$ 26,313</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of mortgage notes receivable for sale of houses	<u>\$ 41,086</u>	<u>\$ 333,637</u>
Operating right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 2,045,601</u>	<u>\$ 0</u>
Finance right-of-use assets obtained in exchange for new finance lease liabilities	<u>\$ 104,303</u>	<u>\$ 0</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, 2023

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, 2023

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, 2023

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>2023</u>	<u>2022</u>
Completed homes	\$ 129,059	\$ 83,613
Homes under construction	3,100,705	2,221,019
Valuation allowance	<u>(790,000)</u>	<u>(366,000)</u>
	<u>\$ 2,439,764</u>	<u>\$ 1,938,632</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, 2023

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.

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, 2023 and 2022, and are being amortized on the straight-line method over 360 months, the life of the loan.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

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

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 \$3,540 and \$3,541 for the years ended June 30, 2023 and 2022, respectively.

Leases - lessee

The organization determines if an arrangement is or contains a lease at inception. The organization has entered into a variety of operating and finance leases for ReStore space and vehicles. Operating and finance leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term.

The organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less and that do not include an option to purchase the underlying assets that is reasonably certain to be exercised). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. There were no short-term leases for the year ended June 30, 2023.

For the lease of ReStore space, the organization has elected to account for the lease and non-lease components as a single lease component. There is variability in future lease payments for the ReStore space as the amount of the non-lease components is dependent on certain factors that are unknown and change from one period to the next. These variable lease payments which are primarily comprised of common area maintenance (CAM), utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

In evaluating contracts to determine if they qualify as a lease, the organization considers factors such as whether it has obtained substantially all of the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

The organization has also made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments for its lease of the ReStore space.

In determining the discount rate used to measure the right-of-use asset and lease liability, the organization uses rates implicit in the lease, or if not readily determinable, the organization uses the risk-free rate.

In determining what percentage of the lease constitutes a major part of the economic life of the underlying asset and defining what percentage of the present value of the sum of lease payments equals or exceed substantially all of the fair value of the underlying asset, the organization has elected to define major part as 75% of all classes of underlying assets and to define substantially all as 90% for all classes of underlying assets.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2023

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

Revenue recognition – contribution transactions

Contributions and grants

The organization recognizes contributions when cash, other assets or a notification of an unconditional promise to give is received and records the amounts as contribution revenue with or without restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, such as the payment of expenses related to the restriction), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue recognition – contracts with customers

Revenues from ReStore retail sales

A portion of the organization's revenue is derived from ReStore sales during the year.

The revenue is conditioned upon meeting one performance obligation. The sales transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made (point in time). Once the sale is made, customers take possession of the goods purchased. The organization does have a return policy for the items sold at the ReStores and the amount of returns is not material to the organization.

Revenues from sale of properties

A portion of the organization's revenue is derived from home sales during the year. Due to the nature of contracts, there is no variable consideration and only one performance obligation. The revenue is conditioned upon meeting a certain performance obligation, and amounts received are recognized as revenue once the requirement has been met. Once construction is complete on a home and closing procedures have been completed, buyers take possession of the home and the performance obligation is considered to have been met (point in time). Each house sold has a defined purchase price based on a third-party appraisal. Contracts are considered to have commercial substance as they all involve a cash down payment and a signed promissory note, which is paid in accordance with the note terms. All direct materials, direct labor costs, and other direct costs related to construction activities are inventoried, and then charged to expenses upon closing. Costs incurred in connection with completed homes, selling, and administrative costs are charged to expenses as incurred.

Revenues from critical home repairs income

A portion of the organization's revenue is derived from critical home repairs during the year. Due to the nature of contracts, there is no variable consideration and only one performance obligation. The revenue is conditioned upon meeting a certain performance obligation, and amounts received are recognized as revenue once the requirement has been met. The organization recognizes income from critical home repairs when the home repairs have been completed and the mortgage documents are signed (point in time).

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 Year ended June 30, 2023

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

Revenue recognition - special events

The organization sells tickets and offers sponsorships for its special events. Ticket sales and sponsorships are refundable 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 and contribution portions of these events in the year the event takes place (point in time). The contribution 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, 2023 and 2022.

In-kind contributions

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

	2023	2022
Construction materials	\$ 317,848	\$ 279,654
Professional services	226,959	199,495
Total donated goods and services	544,807	479,149
Inventory – ReStore donations	3,129,386	2,855,038
	\$ 3,674,193	\$ 3,334,187

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, 2023 and 2022 totaled \$3,447,234 and \$3,134,692, respectively.

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 \$226,959 and \$199,495 for the years ended June 30, 2023 and 2022, 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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

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

All in-kind contributions received by the organization for the years ended June 30, 2023 and 2022 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 \$153,654 and \$138,318 for the years ended June 30, 2023 and 2022, 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.

Adoption of new accounting standard - leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The organization elected the available practical expedients to account for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

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

As a result of the adoption of the new lease accounting guidance, the organization recognized on July 1, 2022, a lease liability of \$2,045,601, which represents the present value of the remaining operating lease payments of \$2,335,579, discounted using the rate implicit to the lease ranging from 4.99% to 5.57% for vehicles, and the organization's risk-free rate of 2.88% for the ReStore lease, and a right-of-use asset of \$2,045,601. Since there was no difference between the additional lease assets and lease liabilities, no cumulative effect adjustment was recorded to net assets.

The standard had a material impact on the organization's consolidated statement of financial position, but did not have a material impact on the consolidated statement of activities. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

The organization's policy in determining the risk-free rate for existing operating leases at July 1, 2022 is to base it on the remaining lease term.

Reclassifications

One item in the 2022 financial statements has been reclassified to be consistent with the current year's presentation. Grants receivable of \$240,140 was reclassified from unconditional promises to give, short-term in the statements of financial position.

Subsequent events

These financial statements have not been updated for subsequent events occurring after October 18, 2023, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

NOTE B -- 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.

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, 2023

NOTE B – Investments (Continued)

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

	<u>06/30/23</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>
Assets				
Money market funds ¹	\$ 364,926	\$ 364,926	\$ 0	\$ 0
Fixed income funds				
U.S. government and U.S. agency obligations ¹	2,620,811	2,620,811	0	0
Equity mutual funds ¹	1,329,083	1,329,083	0	0
Exchange traded funds ¹	<u>4,256,870</u>	<u>4,256,870</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 8,571,690</u>	<u>\$ 8,571,690</u>	<u>\$ 0</u>	<u>\$ 0</u>
	<u>06/30/22</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>
Assets				
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	2,298,743	2,298,743	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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE B – Investments (Continued)

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

	2023	2022
Interest and dividend income on investments	\$ 253,907	33,615
Net unrealized gains (losses)	495,502	(613,725)
Net realized gains (losses)	(176,084)	1,189
Investment fees	(21,558)	(1,156)
 Total investment return, net	 \$ 551,767	 \$ (580,077)

NOTE C -- Mortgage notes receivable

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

	2023	2022
Gross mortgage notes receivable	\$ 6,602,404	\$ 7,338,413
Less: unamortized mortgage discounts	(3,148,219)	(3,570,766)
Less: allowance for doubtful mortgage notes	(36,000)	(36,000)
 Net mortgage notes receivable	 3,418,185	 3,731,647
Less: current portion of mortgage notes receivable	(623,000)	(639,000)
 Net mortgage notes receivable, less current maturities	 \$ 2,795,185	 \$ 3,092,647

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 7.85% (effective interest rate of 8.14%) and 7.49% (effective interest rate of 7.75%) in 2023 and 2022, 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 \$623,000 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, 2023

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, 2023 and 2022, mortgages represented 12% and 15% of total assets, respectively.

The credit quality indicator is based on days delinquent.

As of June 30, 2023, the following mortgages and amounts were considered past due:

	<u>Number of delinquent mortgages</u>	<u>Principal balance</u>
30 - 59 days	10	\$ 230,700
60 - 89 days	9	379,944
90 - 119 days	0	0
Over 120 days	10	304,108

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

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

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE E -- Unconditional promises to give

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

	2023	2022
Unconditional promises to give	\$ 1,204,505	\$ 999,162
Less: present value discount	11,859	9,093
Net unconditional promises to give	1,192,646	990,069
Less: unconditional promises to give in one to five years	122,141	146,575
Unconditional promises to give in less than one year	\$ 1,070,505	\$ 843,494

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 8.25% and 4.75% as of June 30, 2023 and 2022, 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, 2023 and 2022 were \$58,641 and \$85,094, 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 \$453,500 and \$497,900 as of June 30, 2023 and 2022, 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, 2023

NOTE G -- Property and equipment, net

Property and equipment, net is comprised of the following:

	2023	2022
Land	\$ 1,314,473	\$ 1,314,473
Buildings	1,421,012	1,421,012
Building improvements	1,637,402	1,520,046
Vehicles	223,822	169,344
Equipment	223,509	143,106
Computer equipment	63,777	110,783
	4,883,995	4,678,764
Less: accumulated depreciation	1,329,611	1,154,980
	\$ 3,554,384	\$ 3,523,784

NOTE H -- Notes payable

Notes payable consist of the following:

	2023	2022
Noninterest-bearing notes payable to Habitat for Humanity International, Inc.; due in monthly payments ranging from \$338 to \$1,283; maturing no later than June 30, 2029; the notes are uncollateralized.	\$ 132,160	\$ 106,383
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.	773	6,973
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%.	145,372	173,204
	278,305	286,560
Less: current maturities	59,974	44,001
	\$ 218,331	\$ 242,559

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE H -- Notes payable (continued)

Repayment of principal on notes payable as of June 30, 2023, is as follows:

Year ending June 30,

2024	\$ 59,974
2025	59,905
2026	60,282
2027	57,453
2028	37,742
Thereafter	<u>2,949</u>
	<u>\$ 278,305</u>

NOTE I -- Loan payable, net

Loan payable, net consist of the following:

	<u>2023</u>	<u>2022</u>
HFHI NMTC SUB-CDE III, LLC (see Note O); nonrecourse; semi-annual interest only payments until 2025 at .694151% (effective interest rate of .695356%); semi-annual payments of \$44,309, including interest at .694151% (effective interest rate of .695356%), 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 \$89,097 and \$92,637 as of June 30, 2023 and 2022, respectively; interest expense totaled \$13,317 and \$13,316 for the years ended June 30, 2023 and 2022, respectively.	<u>1,918,494</u>	<u>1,918,494</u>
	1,918,494	1,918,494
Less: unamortized debt issuance costs	<u>89,097</u>	<u>92,637</u>
	<u>\$ 1,829,397</u>	<u>\$ 1,825,857</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE I -- Loan payable, net (Continued)

Repayment of principal on loan payable as of June 30, 2023, is as follows:

Year ending June 30,

2024	\$	0
2025		0
2026		75,433
2027		75,957
2028		76,458
Thereafter		<u>1,690,646</u>
	<u>\$</u>	<u>1,918,494</u>

NOTE J -- Line of credit

The organization has a \$500,000 unsecured line of credit. There were no amounts outstanding on the line at June 30, 2023 and 2022. The interest rate is variable based on the prime rate with a floor of 3.50% (8.25% and 4.75% as of June 30, 2023 and 2022, respectively). The line of credit expires on February 17, 2024.

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>2023</u>	<u>2022</u>
Internship program	\$ 81,762	\$ 38,654
Air conditioners	18,367	8,361
Critical housing	0	24,295
Pantry stocking	1,570	614
Tax foreclosure prevention	27,916	20,721
Tools	8	638
Solar panels	0	14,686
Education support	1,500	1,500
Warehouse supplies and construction tools	0	8,581
Charitable gift fund	10,014	0
Gratitude grant	7,500	0
Church activities	10,000	0
Time restrictions on unconditional promises to give	<u>2,118,093</u>	<u>1,239,302</u>
	<u>\$ 2,276,730</u>	<u>\$ 1,357,352</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE L -- Operating leases

The organization leases its ReStore space and vehicles under operating and finance leases with 7-to-10-year terms. The terms of the leases expire at various dates between March 2024 and July 2031.

While all of the agreements provide for minimum lease payments, some include payments based on changes in the consumer price index (CPI). Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. These payments are recognized in the period in which the related obligation was incurred. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	\$ 273,053
Variable lease cost	58,907
Finance lease cost:	
Amortization of right-of-use assets	2,483
Interest on lease liabilities	<u>1,994</u>
Total finance lease cost	<u>4,477</u>
Total lease cost	<u>\$ 336,437</u>

Supplemental consolidated statement of cash flows information related to leases as of June 30, 2023, is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 254,202
Operating cash flows from finance leases	1,001
Financing cash flows from finance leases	2,615

Noncash financing and investing cash flow:

Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 2,045,601
Finance leases	104,303

Supplemental consolidated statement of financial position information related to leases as of June 30, 2023, is as follows:

Weighted average remaining lease term (in years):	
Operating leases	7.95
Finance leases	6.83

Weighted average discount rate:	
Operating leases	3.02%
Finance leases	11.72%

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

NOTE L -- Operating leases (Continued)

Future minimum lease payments to be paid under this lease as of June 30, 2023, are as follows:

<u>Year ending June 30,</u>	<u>Operating Leases</u>	<u>Finance Lease</u>
2024	\$ 253,750	\$ 21,696
2025	248,487	21,696
2026	253,115	21,696
2027	257,835	21,696
2028	262,650	21,696
Thereafter	<u>805,540</u>	<u>39,776</u>
Total future minimum lease payments	2,081,377	148,256
Less amount of lease payments representing interest	<u>(231,270)</u>	<u>(45,574)</u>
Present value of future minimum lease payments (lease liabilities)	<u>\$ 1,850,107</u>	<u>\$ 102,682</u>

Lease disclosures for the year ended June 30, 2022 following prior lease guidance in FASB ASC 840 are provided below.

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 CAM, utilities, and real estate taxes that will vary month to month. Total expense under the lease for the year ended June 30, 2022 was \$231,877.

Future minimum lease payments under this lease is as follows:

<u>Year ending June 30,</u>	
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>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2023

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, 2023 and 2022, the amount of the tithe expense totaled \$335,000 and \$926,600, respectively.

Habitat for Humanity International Inc. receives contributions on behalf of the organization. For the years ended June 30, 2023 and 2022, the amount of these contributions passed through to the organization from Habitat for Humanity International Inc. totaled \$273,750 and \$109,167, 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 \$36,893 and \$40,009 for years ended June 30, 2023 and 2022, respectively.

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.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2023

NOTE O -- NMTC investments (Continued)

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, 2023 and 2022. 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, 2023 and 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>2023</u>	<u>2022</u>
Cash	\$ 2,927,124	\$ 3,020,007
Accounts receivable	4,384	3,884
Unconditional promises to give	1,070,505	843,494
Grants receivable	913,588	240,140
Mortgage notes receivable	623,000	639,000
Escrow receivable	<u>58,641</u>	<u>85,094</u>
Financial assets available within one year	<u>\$ 5,597,242</u>	<u>\$ 4,831,619</u>

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2023

NOTE Q -- Commitments and contingencies

Wisconsin Lead-Safe Homes grant program

The organization has entered into a grant agreement with the State of Wisconsin Department of Health Services (DHS) for the Lead-Safe Homes grant program to receive \$320,500 to support lead-safe homes projects for the period July 1, 2022 to September 30, 2023. As of June 30, 2023, \$313,082 was recognized as grant income and \$45,689 was recognized as grants receivable. The organization had entered into a grant agreement with DHS for the Lead-Safe Homes grant program to receive \$464,400 to support lead-safe homes projects for the period July 1, 2021 to June 30, 2022. As of June 30, 2023 and 2022, \$0 and \$464,400, respectively, was recognized as grant income. Grants receivable specific to this grant was \$8,800 and \$240,140 as of June 30, 2023 and 2022, respectively.

Lead Hazard Reduction grant program

The organization has entered into a grant agreement with the City of Milwaukee for the Lead Hazard Reduction grant program to receive \$3,206,750 to support lead hazard reduction projects. As of June 30, 2023 and 2022, \$859,099 and \$0, respectively, was recognized as grant income and grants receivable.

Equitable Recovery grant program

The organization has entered into a grant agreement with the State of Wisconsin Department of Administration for the Equitable Recovery grant program to receive \$1,000,000 to construct 50 new homes in a specific area of Milwaukee. As of June 30, 2023 and 2022, \$400,000 and \$0, respectively, was recognized as grant income. There was no outstanding receivable as of June 30, 2023 and 2022.

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, 2023 and 2022, environmental remediation liability was \$250,544 and \$273,169, respectively.

SUPPLEMENTARY INFORMATION

MILWAUKEE HABITAT FOR HUMANITY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal Assistance listing number</u>	<u>Pass-Through Entity Identifying number</u>	<u>Federal expenditures</u>
U.S. Department of the Treasury: City of Milwaukee COVID-19 Coronavirus State and Local Fiscal Recovery Funds (Lead Hazard Reduction Grant)	21.027	SLFRP0157	\$ 859,099
Wisconsin Department of Administration: COVID-19 Coronavirus State and Local Fiscal Recovery Funds (Equitable Recovery Grant Program)	21.027	SLFRP0135	<u>380,000</u>
Total Coronavirus State and Local Fiscal Recovery Funds			1,239,099
U.S. Department of Health Services Wisconsin Department of Health Services Children's Health Insurance Program (Wisconsin Lead-Safe Homes Program)	93.767	N/A	<u>313,082</u>
Total expenditures of federal awards			<u>\$ 1,552,181</u>

Note 1 - Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Milwaukee Habitat for Humanity, Inc. and Subsidiary (the organization) under programs of the federal government for the year ended June 30, 2023 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the organization it is not intended to and does not present the financial position, changes in net assets, or cash flows of the organization.

Note 2 – Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect cost rate

The organization has elected not to use the 10% minimis indirect cost rate allowed under the Uniform Guidance.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Milwaukee Habitat for Humanity, Inc. and Subsidiary, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milwaukee Habitat for Humanity, Inc. and Subsidiary's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

October 18, 2023

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Milwaukee Habitat for Humanity, Inc. and Subsidiary's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Milwaukee Habitat for Humanity, Inc. and Subsidiary's major federal programs for the year ended June 30, 2023. Milwaukee Habitat for Humanity, Inc. and Subsidiary's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Milwaukee Habitat for Humanity, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Milwaukee Habitat for Humanity, Inc. and Subsidiary's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Milwaukee Habitat for Humanity, Inc. and Subsidiary's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Milwaukee Habitat for Humanity, Inc. and Subsidiary's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Milwaukee Habitat for Humanity, Inc. and Subsidiary's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Milwaukee Habitat for Humanity, Inc. and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Milwaukee Habitat for Humanity, Inc. and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

October 18, 2023

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2023

Section I -- Summary of Auditor's Results

Financial statements

Type of auditor's report issued:	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes <u> X </u> none reported
Type of auditor's report issued on compliance for major programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ yes <u> X </u> no

Identification of major programs:

<u>Assistance Listing</u> <u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low risk auditee?	_____ yes <u> X </u> no
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There were no findings for the year ended June 30, 2023.

MILWAUKEE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year ended June 30, 2023

There were no findings for the year ended June 30, 2022. This is the first report required by the Uniform Guidance.

CORRECTIVE ACTION PLAN

Milwaukee Habitat for Humanity, Inc. and Subsidiary

Audit Firm: SVA Certified Public Accountants, S.C.

Audit Period: Year ended June 30, 2023

Corrective Action Plan Prepared by:

Name: Brian Sonderman

Position: Executive Director, Milwaukee Habitat for Humanity, Inc.

Telephone Number: 414-562-6100

There were no findings for the year ended June 30, 2023.