RACINE HABITAT FOR HUMANITY, INC.

Audited Financial Statements
with
Independent Auditor's Report
For the Year Ended June 30, 2023
With Summarized Financial Information
For the Year Ended June 30, 2022

Racine Habitat for Humanity, Inc.

Table of Contents

GORDON J. MAIER & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

845 WISCONSIN AVENUE
RACINE, WISCONSIN 53403

262-634-7108
262-634-5069 (Fax)
www.gjmllp.com (Web)

12778 W. NORTH AVENUE, BLDG A
BROOKFIELD, WISCONSIN 53005

262-432-0640
262-432-0642 (Fax)
cpa@gjmllp.com (E-mail)

JULIE A. CRAIG, CPA
MICHAEL P. SLYE, CPA
PAT FOGARTY, CPA

JOSEPH L. NIXA, CPA
GEORGE L. GISSELL, CPA
FRANKLIN M. TRESCH, CPA

October 16, 2023

To the Board of Directors
Racine Habitat for Humanity, Inc.
Racine, Wisconsin

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of Racine Habitat for Humanity, Inc. (a Nonprofit Organization), which comprise the Statement of Financial Position as of June 30, 2023, and the related Statements of Activities, Cash Flows, and Functional Expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Racine Habitat for Humanity, Inc., as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Racine Habitat for Humanity, Inc., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Racine Habitat for Humanity, Inc.'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 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 Racine Habitat for Humanity, Inc.’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 Racine Habitat for Humanity, Inc.’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.

Report on Summarized Comparative Information

We have previously audited Racine Habitat for Humanity, Inc.’s June 30, 2022, financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated January 5, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it was derived.

Gordon J. Maier & Company, LLP
Certified Public Accountants

Racine Habitat for Humanity, Inc.
Statement of Financial Position
June 30, 2023
With Summarized Financial Information
June 30, 2022

	2023	2022
Assets		
Current Assets		
Cash and Cash Equivalents (Note 1)	$ 518,128	$ 571,010
Cash and Cash Equivalents - Investments (Note 1)	12,685	13,813
Other Receivables	3,754	9,616
Prepaid Expenses	1,184	11,717
Mortgage Escrow Deposits Held (Note 1)	246,027	243,499
Mortgage Notes Receivable - Current Portion (Notes 1 & 4)	55,312	63,895
Total Current Assets	837,090	913,550
Property and Equipment (Note 1)		
Land	32,400	32,400
Building and Improvements	194,910	161,168
Furniture and Equipment	122,004	122,004
Vehicles	78,481	62,981
	427,795	378,553
Less: Accumulated Depreciation	182,025	166,055
Net Property and Equipment	245,770	212,498
Other Assets		
Land Held for Development, Net (Note 1)	1,074	11,636
Construction in Progress, Net (Notes 1 & 5)	847,430	662,237
Mortgage Notes Receivable, Net (Notes 1 & 4)	1,844,001	1,804,842
Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. (Note 3)	79,111	75,915
Investments (Notes 1 & 2)	700,374	640,340
Total Other Assets	3,471,990	3,194,970
Total Assets	$ 4,554,850	$ 4,321,018
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	$ 61,475	$ 93,865
Accrued Expenses	26,870	15,419
Mortgagee Escrow Deposits (Note 1)	245,192	242,664
Total Current Liabilities	333,537	351,948
Net Assets		
Without Donor Restrictions		
Undesignated	4,009,690	3,537,060
Designated	79,111	75,915
With Donor Restrictions (Note 6)	132,512	356,095
Total Net Assets	4,221,313	3,969,070
Total Liabilities and Net Assets	$ 4,554,850	$ 4,321,018

The Accompanying Notes are an intergal
part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Statement of Activities
For the Year Ended June 30, 2023
With Summarized Financial Information for the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Totals	2022 Totals
Public Support and Revenue				
Home Sales and Financing	$ 629,478		$ 629,478	$ 452,296
ReStore Sales	486,931		486,931	426,093
Contributions	149,833	185,000	334,833	286,796
In-Kind Donations	570,823		570,823	440,840
Grants	152,340	10,000	162,340	176,751
Fundraising - Playhouse	40,640		40,640	11,280
Other Income	146,715		146,715	6,672
Investment Gain (Loss)	65,154		65,154	(111,932)
PPP Loan Forgiveness	-		-	43,945
Total Public Support and Revenue	2,241,914	195,000	2,436,914	1,732,741
Net Assets Released from Restrictions	418,583	(418,583)	-	-
Expenses				
Program Services				
Construction	1,465,998	-	1,465,998	1,049,204
ReStore	640,811	-	640,811	559,590
Total Program Services	2,106,809	-	2,106,809	1,608,794
Support Services				
Management and General	73,476	-	73,476	52,973
Fundraising	4,386	-	4,386	1,980
Total Expenses	2,184,671	-	2,184,671	1,663,747
Changes in Net Assets	475,826	(223,583)	252,243	68,994
Net Assets – July 1,	3,612,975	356,095	3,969,070	3,900,076
Net Assets - June 30,	$ 4,088,801	$ 132,512	$ 4,221,313	$ 3,969,070

Racine Habitat for Humanity, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2023
With Summarized Financial Information for the Year Ended June 30, 2022

	2023	2022
Cash Flows from Operating Activities		
Changes in Net Assets	$ 252,243	$ 68,994
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	15,970	17,452
Unrealized Losses (Gains) on Investments	(62,170)	102,089
Discount on Mortgage Originations	282,117	151,280
Amortization of Discount on Mortgages	(169,477)	(137,296)
Home Sales Through Mortgages Issued	(458,500)	(315,000)
Change in Interest in Assets Held by the Racine Community Foundation, Inc.	(3,196)	14,065
(Increase) Decrease in Operating Assets		
Other Receivables	5,862	(4,112)
Prepaid Expenses	10,533	(6,243)
Mortgage Escrow Deposits Held	(2,528)	23,530
Land Held for Development	10,562	(1,977)
Construction in Progress	(185,193)	(77,364)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(32,390)	30,399
Accrued Expenses	11,451	6,008
Mortgagee Escrow Deposits	2,528	(24,365)
Total Adjustments	(574,431)	(221,532)
Net Cash Used in Operating Activities	(322,188)	(152,538)
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(49,241)	(1,626)
Collection of Mortgage Notes Receivable	315,285	196,629
Proceeds from Sale of Investments	216,729	224,802
Purchases of Investments	(214,595)	(219,343)
Net Cash Provided by Investing Activities	268,178	200,462
Cash Flows from Financing Activities		
PPP Loan Forgiveness	-	(43,945)
Net Cash Provided by Investing Activities	-	(43,945)
Net Increase (Decrease) in Cash	(54,010)	3,979
Cash and Cash Equivalents - July 1,	584,823	580,844
Cash and Cash Equivalents - June 30,	$ 530,813	$ 584,823
Cash and Cash Equivalents	$ 518,128	$ 571,010
Cash and Cash Equivalents - Investments	12,685	13,813
	$ 530,813	$ 584,823

The Accompanying Notes are an intergal
part of these Financial Statements.

Racine Habitat for Humanity, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023
With Summarized Financial Information for the Year Ended June 30, 2022

	----- Program Services -----			--- Supporting Services ---			
	Construction	**ReStore**	**Total Program Services**	**Management and General**	**Fundraising**	**2023 Total**	**2022 Total**
Building Maintenance	$ 5,772	$ 721	$ 6,493	$ 721	$ -	$ 7,214	$ 5,654
Cost of ReStore Sales	-	486,931	486,931	-	-	486,931	428,460
Cost of Home Sales	595,964	-	595,964	-	-	595,964	472,813
Depreciation (Note 1)	12,778	1,596	14,374	1,596	-	15,970	17,439
Discount on Mortgage Originations	282,117	-	282,117	-	-	282,117	151,280
Dues, Publications and Training	28,363	3,545	31,908	3,545	-	35,453	14,680
Hand Tools and Supplies	14,943	1,869	16,812	1,869	-	18,681	11,107
Homeowner Assistance	-	-	-	-	-	-	1,289
Insurance	18,222	2,279	20,501	2,279	-	22,780	15,012
Miscellaneous Expense	8,424	1,047	9,471	1,047	-	10,518	1,175
Office Expense	40,953	5,121	46,074	5,121	-	51,195	45,139
Professional Fees	34,650	4,330	38,980	4,330	-	43,310	28,054
Promotions and Advertising (Note 1)	4,893	610	5,503	610	-	6,113	6,709
Rent Expense	-	80,404	80,404	-	-	80,404	78,158
Salaries,Wages, and Payroll Taxes	356,184	44,522	400,706	44,522	-	445,228	329,796
Tithe to Habitat for Humanity International, Inc. (Note 9)	9,999	1,250	11,249	1,250	-	12,499	14,386
Utilities	20,004	2,500	22,504	2,500	-	25,004	19,892
Vehicle Expenses	22,804	2,847	25,651	2,847	-	28,498	13,143
Fundraising Expenses	-	-	-	-	4,386	4,386	1,980
Volunteer Expenses	8,816	1,100	9,916	1,100	-	11,016	6,147
Warehouse Expenses	1,112	139	1,251	139	-	1,390	1,434
Total Operating Expenses	$ 1,465,998	$ 640,811	$ 2,106,809	$ 73,476	$ 4,386	$ 2,184,671	$ 1,663,747

The Accompanying Notes are an integral
part of these Financial Statements.

Note 1. Summary of Significant Accounting Policies

Organization

Racine Habitat for Humanity, Inc. (Organization) is a not-for-profit organization formed on June 16, 1988 to build and rehabilitate homes which are then resold at favorable terms to qualified families. The Organization is affiliated with Habitat for Humanity International, Inc. which was organized for religious, charitable, and educational purposes in order to implement the gospel of Jesus Christ by working with economically disadvantaged people to help them create a better human habitat in which to live and work. The Organization is exempt from Federal income taxes under its present method of operating provided in Section 401(c)(3) of the Internal Revenue Code. Having qualified for exemption under provisions of the Internal Revenue Code, the Organization is also exempt from Wisconsin income taxes as provided in Chapter 181 of the Wisconsin Statutes.

The Organization's primary program activity is the construction, rehabilitation, sale, and financing of houses for individuals in need in the City of Racine and nearby areas. These individuals participate in the construction of their own homes and other homes constructed through the efforts of the Organization.

The Organization also operates a store (ReStore) that sells recycled materials, including new and used home building materials and furnishings. Substantially all ReStore inventory is donated.

Basis of Presentation

Financial statement presentation follows the standards of the FASB ASC 958, ***Not-for-Profit Entities***. Under FASB ASC 958, ***Not-for-Profit Entities***, 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 of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions -

Undesignated: Net assets that are not subject to donor-imposed restrictions or Board imposed stipulations.

Designated: Net assets subjected to stipulations imposed by the Board of Directors and determined to be unavailable for general use.

Net Assets With Donor Restrictions– Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time.

Note 1. Summary of Significant Accounting Policies (cont.)

Contributions and Grants

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Restricted contributions received are considered net assets with donor restrictions until expenses are incurred in compliance with the donor's restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which contributions are received are classified as without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Significant estimates used in preparing these financial statements include those assumed to value investments at fair value. An estimate regarding a possible loss on these investments cannot be made due to the fluctuating nature of market conditions. It is at least reasonably possible that the estimates will change within the next year depending on market conditions.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and investments that have an original maturity date of less than three months. For the purpose of the Statement of Cash Flows, the Organization considers cash and cash equivalents as currency on hand, demand deposits, money markets, and certificates of deposit with original maturities of three months or less.

Property and Equipment

Expenditures for the acquisitions of property and equipment are capitalized at cost. The fair value of donated property at the date of the gift is similarly capitalized. It is the Organization's policy to capitalize all property and equipment expenditures greater than $1,000 with useful lives of at least one year. Certain expenditures less than $1,000 may be capitalized at the discretion of management. Expenditures for minor maintenance and repairs of property and equipment to maintain facilities in operating condition are generally expensed as incurred. Major replacements and repairs are capitalized.

Note 1. Summary of Significant Accounting Policies (cont.)

Property and Equipment…(cont.)

Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Building and Improvements	3 - 40
Furniture and Equipment	5
Vehicles	5

Depreciation expense for the years ended June 30, 2023 and 2022 totaled $15,970 and $17,452, respectively.

Mortgage Notes Receivable

The Organization's portfolio of mortgage notes receivable include first and second trust deeds for direct loans made by the Organization. The first mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers. Each mortgage note receivable is secured with real estate and payable in monthly installments over the term of the note, generally ranging from twenty to thirty years. In accordance with accounting principles generally accepted in the United States of America, these non-interest bearing mortgages have been discounted based upon prevailing rates for low income housing at the inception of each mortgage.

The mortgage notes receivable resulting from the second trust deeds are referred to as "silent". The primary purpose of these silent mortgages is to allow the Organization to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years, usually ten, to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable typically bear no interest and are forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, the Organization does not record a value for these silent mortgage notes receivable.

Allowance for Mortgage Notes Receivable

The Organization uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest bearing mortgage loan from the Organization. This includes a thorough review of each prospective homeowner's credit report, sources of income, and financial history.

The Organization regularly reviews its portfolio notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are sixteen days past due are considered to be in an early stage of default. During the period of delinquency of sixteen to ninety days past due, the Organization contacts the borrower using collection efforts and establishes a payment plan with the homeowner, if necessary.

Note 1. Summary of Significant Accounting Policies (cont.)

Allowance for Mortgage Notes Receivable (cont.)

Thereafter, if forgoing collection efforts are not successful, the Organization attempts to enter into a mutually agreed-upon mortgage modification followed by a deed-in-lieu of foreclosure with the homeowner if a modification cannot be agreed upon. Homeowners whose mortgages are more than ninety days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with the Organization, are subject to foreclosure proceedings. For the years ended June 30, 2023 and 2022, the Organization did not execute any deed-in-lieu of foreclosure agreements.

Non-interest bearing mortgages originated are discounted at the time of sale based on historical experience from the Organization's portfolio mortgages and upon prevailing market rates. This results in the net mortgage receivables balances being less than 50% of the home's fair market value. Therefore, the Organization believes that losses resulting from non-payment of mortgage notes receivable, given the collateral value, are not likely. Accordingly, the Organization does not record an allowance for mortgage notes receivable losses.

Mortgage notes receivable are considered impaired when, based on current information, it is probable that the Organization will not collect all amounts due in accordance with the terms of the agreement. The Organization has determined that there are no impaired loans as of June 30, 2023 and 2022.

Donated Services

Donated materials are recorded in the financial statements as assets and revenue or capitalized at their estimated fair market value on the date the materials are received. Donated services are recognized as contributions in accordance with FASB ASC 958, ***Not-for-Profit Entities***, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

The Organization receives a significant amount of donated services from a substantial number of unpaid volunteers. In addition, the prospective homeowners are required to contribute 300 hours of sweat equity toward the construction of homes. No amounts have been recognized in the financial statements for these services since they do not meet the criteria for recognition under FASB ASC 958, ***Not-for-Profit Entities***.

The Organization also receives donated home furnishings, building, and home improvement materials that are sold in the home improvement store (ReStore) operated by the Organization. Donated merchandise is valued at its estimated fair value. Cost of goods sold is recognized at the estimated fair value of donated merchandise sold, plus the costs to prepare the merchandise for sale. The Organization has not recognized inventory for these items as they are unique and have uncertainty about existence of value until there is a willing buyer and they are sold. Donated merchandise that is unsuitable for sale is recognized as revenue upon sale to a salvage dealer.

The Organization received the following donated materials and services which are recorded in a separate line item on the Statement of Activities as of June 30:

Note 1. Summary of Significant Accounting Policies (cont.)

Donated Services (cont.)

	2023	2022
Professional Services - Engineering	$ 5,244	$ 4,072
Professional Services - Audit	7,507	3,808
Professional Services – Attorney Fees	--	381
Professional Services - Electrical	--	3,071
Land Donations	66,705	--
Professional Services - Other	4,436	3,415
Building Materials and Supplies	486,931	426,093
	$ 570,823	$ 440,840

Concentration of Risks

Cash

The Organization maintains its cash accounts at various banks in Racine, Wisconsin. Accounts in the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2023 and 2022, the Organization had $585,171 and $593,700, respectively, on deposit of which $198,603 and $211,325 were not insured by the FDIC.

Investments

The Organization maintains its investments at KOWAL Investment Group. Securities held in the brokerage account are held in custody by KOWAL Investment Group, which is a member of the Securities Investor Protection Corporation (SIPC), which protects securities of its members up to $500,000, including $250,000 in cash. KOWAL Investment Group has secured additional coverage from certain insurers at Lloyd's of London and London Company Insurers for eligible customers with an aggregate limit of $250 million, incorporating a customer limit of $49.5 million for securities and $1.75 million for cash. At June 30, 2023 and 2022, the Organization had $713,059 and $654,153, respectively, on deposit of which $-0- and $-0 - were not insured by either the SIPC or the additional coverage secured by KOWAL Investment Group.

Home Sales

Revenue is recognized on the sale of homes when the title passes to eligible purchasers by the completed contract method. The amount of home sale revenue the Organization records is the total of the cash down payment and the face value of the non-interest bearing mortgage note receivable. Due to subsidies provided by grants and contributions, the sale price of a home sold for the years ended June 30, 2023 and 2022 was approximately 77% and 67%, respectively, of the Organization's cost to construct the home.

Note 1. Summary of Significant Accounting Policies (cont.)

Land Held for Development

Land held for development consists of purchased or donated land that will be developed for future home construction. Properties are valued at the lower of cost or market. A valuation allowance of $8,544 and $8,544 has been recorded as of June 30, 2023 and 2022, respectively.

Construction in Progress

Construction in progress represents costs incurred to build or rehabilitate single-family homes for eventual sale to partner families. In the event development is no longer deemed to be probable, the costs previously capitalized are expensed. The Organization's projects consist of new single family homes and major rehabilitations of existing homes acquired by the Organization.

Costs of homes sold consist of capitalized home construction costs and certain other related costs associated with the sale of each home. Costs include all direct labor and benefits, materials, subcontract costs, and allocations of indirect construction costs. General and administrative costs are charged to expenses as incurred.

Valuation of Investments

Financial Accounting Standards Board ("FASB") provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1—Quoted prices in active markets, e.g., NYSE, NASDAQ, etc., for assets identical to the securities to be valued. If a Level 1 input is available, it must be used.

Level 2—Inputs other than quoted prices that are observable for securities, either directly or indirectly. Examples include matrix pricing utilizing yield curves, prepayment speeds, credit risks, etc.; quoted prices for similar assets in active markets; and inputs derived from observable market data by correlation or other means.

Level 3—Unobservable inputs, which contain assumptions by the party valuing those assets. For level 3 inputs, there are no market data or correlations with market assumptions. Examples would include limited partnership interests, closely held stock, etc.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Purchases and sales of investments are recorded on a trade-date basis. Interest and dividend income are recorded on the accrual basis. Realized gains and losses, interest and dividend income, and unrealized appreciation and depreciation of the Organization's assets are reported

Note 1. Summary of Significant Accounting Policies (cont.)

in the statements of activities. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Mortgagee Escrow Deposits

Mortgagee escrow deposits result from required payments made by all mortgage holders to cover the payment of real estate taxes and homeowner's insurance. The amounts held in trust are placed into separate interest bearing accounts on behalf of each mortgagee. The activity and balances for each account are reported to each mortgagee on a quarterly basis.

Advertising Costs

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended June 30, 2023 and 2022 totaled $6,113 and $6,465, respectively.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by management's use of estimates.

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income tax (UBIT).

The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2023 and 2022. Accordingly, there is no accrued interest or penalties associated.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2020, 2021 and 2022 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. None of the Organization's federal or state returns are currently under examination.

Note 1. Summary of Significant Accounting Policies (cont.)

Change in Accounting Principle

During the year ended June 30, 2023, the Organization adopted the provisions of FASB Accounting Standards Codification (ASC) 842 – *Leases.* The objective of ASC 842 - *Leases* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The Standard establishes a model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset for any contract which meets the definition of a lease. FASB ASC 842 - *Leases* is effective for periods beginning after December 15, 2021. See Note 8.

Note 2. Investments

The following summarizes the classification of investments by category and method of valuation, in accordance with the requirements of accounting principles generally accepted in the United States of America, for the year ending June 30, 2023 and 2022:

Investment Holdings as of June 30, 2023:

	Fair Value					
Category	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost Basis**	**Unrealized Appreciation (Depreciation)**
Equities	$ 438,766	$ --	$ --	$ 438,766	$ 430,006	$ 8,760
Fixed Income	261,608	--	--	261,608	279,790	(18,182)
Total	$ 700,374	$ --	$ --	$ 700,374	$ 709,796	$ (9,422)

Investment Income for the Year Ended June 30, 2023:

	Cost
Investment Income	$ 7,643
Realized and Unrealized Gains/(Losses)	55,722
Custodial Fees Paid	(3,331)
	$ 60,034

Note 2. Investments (cont.)

Investment Holdings as of June 30, 2022:

	Fair Value					
Category	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cost Basis**	**Unrealized Appreciation (Depreciation)**
Equities	$ 394,908	$ --	$ --	$ 394,908	$ 465,093	$ (70,185)
Fixed Income	229,104	--	--	229,104	257,179	(28,075)
Other Holdings	16,328	--	--	16,328	15,878	450
Total	$ 640,340	$ --	$ --	$ 640,340	$ 738,150	$ (97,810)

Investment Income for the Year Ended June 30, 2022:

	Cost
Investment Income	$ 6,884
Realized and Unrealized Gains/(Losses)	(111,436)
Custodial Fees Paid	(2,997)
	$ (107,549)

Note 3. Beneficial Interest in Assets Held by the Racine Community Foundation, Inc.

In 1996, Racine Habitat for Humanity, Inc. established the Endowment Fund at the Racine Community Foundation, Inc. The fund was established to support the designated purposes of Racine Habitat for Humanity, Inc. The investment returns, net of trustee fees, are allocated to Racine Habitat for Humanity, Inc.'s endowment fund based on the endowment's average monthly balance in relationship to total funds invested by the Foundation. Investment income of the fund is distributed to Racine Habitat for Humanity, Inc. in such amounts and at such times as its Board of Directors, or their designee, may request.

Distributions of any fund principal amounts may be made for emergency purposes only and must be approved by at least 75% of Racine Habitat for Humanity, Inc.'s Board of Directors after the approval of the Board of Directors of Racine Community Foundation, Inc. If the Board of Directors of Racine Community Foundation, Inc. propose to exercise its variance power, the exercise of that power shall not be effective earlier than at least thirty days after the Racine Community Foundation, Inc. notifies Racine Habitat for Humanity, Inc. in writing of its intent and the manner in which Racine Community Foundation, Inc. proposes to vary the purposes, uses, or methods of administration of the fund. During the notice period, Racine Habitat for Humanity, Inc. may advise Racine Community Foundation, Inc. of its views regarding the proposed exercise of variance power and take such actions it deems appropriate. Racine Community Foundation, Inc. shall not exercise the variance power without taking into account the views of Racine Habitat for Humanity, Inc. As of June 30, 2023 and 2022, the Organization held $79,111 and $75,915, respectively, in beneficial interest in assets held by Racine Community Foundation, Inc.

The balance of the Board designated funds is reported as Board Designated Net Assets on the Statement of Financial Position.

Note 3. Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. (cont.)

The endowment fund held by Racine Community Foundation, Inc. is in pooled investment accounts. Investments held by the Foundation include common stocks, U.S. treasury notes, mutual funds, and other fixed income accounts. The investment returns, net of trustee fees, are allocated to Racine Habitat for Humanity, Inc.'s endowment fund based on the endowment's average monthly balance in relationship to total funds invested by the Foundation.

The endowment fund's investment returns are composed of the following:

Investment Income	$ 1,350
Net Realized and Unrealized Gains (Losses)	6,248
Grants	(3,604)
Administrative Fees	(799)
	$ 3,196

In addition, the Organization is the sole income beneficiary of an agency endowment fund held by the Racine Community Foundation, Inc. As of June 30, 2023 and 2022, the fair value of the net assets held by the Racine Community Foundation, Inc. in the agency endowment fund has been reported by the Racine Community Foundation, Inc. to be $51,444 and $49,366, respectively. Distribution of the investment income to the Organization is made on an annual basis. The Organization's interest in the agency endowment fund at the Racine Community Foundation, Inc. is not recognized in the Organization's financial statements because the Board of Directors of the Racine Community Foundation, Inc. has variance power over substantially all of these assets. There were no distributions made from the assets held by the Racine Community Foundation, Inc. for which the Organization is the designated beneficiary for the years ended June 30, 2023 and 2022.

Note 4. Mortgage Notes Receivable

Mortgage notes receivable consist primarily of non-interest bearing notes with terms between twenty and thirty years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of each mortgage, ranging from 5.00% to 9.00% per annum, as of June 30, 2023 and 2022.

The discount on each mortgage is amortized using the effective interest method. Mortgages that originated during 2023 and 2022 were discounted using an interest rate of 7.85% and 5.00% per annum, respectively. During the years ended June 30, 2023 and 2022, mortgage loan discount amortization recognized within home sales on the Statement of Activities was $169,478 and $137,296, respectively.

Mortgage notes receivable consist of the following as of June 30:

	2023	**2022**
Mortgage Notes Receivable	$ 3,903,212	$ 3,768,580
Less: Unamortized Discount to Present Value	2,003,899	1,899,943
Mortgage Notes Receivable, Net	$ 1,899,313	$ 1,868,637

Note 4. Mortgage Notes Receivable (cont.)

Payments on mortgage notes receivable as of June 30, 2023 are estimated to be received as follows:

2024	$ 208,393
2025	206,180
2026	205,443
2027	203,476
2028	203,083
Thereafter	2,876,637
Total Mortgage Notes Receivable	$3,903,212

The following tables set forth the aging of the customer financing loan receivable as of June 30:

2023 Delinquency Period

30-59 Days	60-89 Days	Greater than 90 Days	Total Delinquent	Current	Total Balance at Year End
$ 2,101	$ 454	$ 5,580	$ 8,135	$ 1,891,178	$ 1,899,313

2022 Delinquency Period

30-59 Days	60-89 Days	Greater than 90 Days	Total Delinquent	Current	Total Balance at Year End
$ 2,328	$ 867	$ 10,135	$ 13,330	$ 1,855,407	$ 1,868,737

Note 5. Construction in Progress

Construction in progress consists of accumulated acquisition, construction and/or rehabilitation costs for homes being built or remodeled for program families. Construction in progress activity is as follows:

	2023	2022
Construction in Progress – Beginning of Year, Net	$ 662,237	$ 550,106
Costs Incurred	781,157	584,943
Cost of Homes Sold	(595,964)	(472,812)
Construction in Progress – End of Year, Net	$ 847,430	$ 662,237
Construction in Progress	$ 868,633	$ 683,440
Less: Reserve for Impairments	21,203	21,203
Construction in Progress, Net	$ 847,430	$ 662,237

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted to the following purposes or periods:

For the Year Ended June 30,	**2023**	**2022**
Subject to Expenditure for the Specified Purpose		
Construction – 1715 Center Street	$ 112,512	$ --
Construction – 2211 Mead Street	--	59,397
Construction – 2221 Racine Street	--	27,264
Construction – 2215 Mead Street	--	169,054
Construction – 1144 Irving Place	--	100,380
Solar Panels for New Homes	10,000	--
Veterans Tiny Homes	10,000	--
Total Net Assets With Donor Restrictions	$ 132,512	$ 356,095

Note 7. ReStore

ReStore activity during the years ended June 30, 2023 and 2022 consisted of the following:

ReStore Cash Sales	$ 486,931	$ 426,093
ReStore In-Kind Donations	486,931	426,093
ReStore Cost of Sales	(486,931)	(428,460)
Total	$ 486,931	$ 423,726

Note 8. FASB Accounting Standards Codification 842 – *Leases*

The Organization recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Organization determines if an arrangement is a lease, or contains a lease, at inception of the contract and when the terms of an existing contract are changed. For leases which meet the recognition requirements of FASB ASC 842, *Leases*, the Organization recognizes a lease liability and a corresponding right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of the expected future lease payments. The discount rate used is the implicit rate if it is readily determinable or otherwise the Organization's incremental borrowing rate.

The Organization has elected, for all underlying classes of assets, to not recognize lease liabilities and ROU assets for short-term leases, defined as those which have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying assets that the Organization is reasonably certain to exercise. Accordingly, lease cost associated with short-term leases is recognized on a straight-line basis over the lease term, consistent with the previous requirements under ASC 840, *Leases.*

As of June 30, 2023, the Organization was party to a short-term operating lease, as defined by ASC 842, *Leases* for 2,637 square feet of office space and 14,400 square feet of warehouse space located in Racine, Wisconsin. The lease commenced on January 1, 2020 for an initial term of two years ending on December 31, 2021. Upon expiration of the initial term, the lease automatically renews for successive one year terms. Either party can terminate the lease with 120 days prior written notice. The annual base rent, paid in equal monthly installments, was $19,118 for the office space and $59,040 for the warehouse space during the initial two year lease term, and is adjusted for inflation on the anniversary of each renewal period. Total rent paid for the years ended June 30, 2023 and 2022 totaled $80,404 and $71,158, respectively.

Note 9. Related Party Transactions

The Organization tithes and remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, the Organization remitted $12,500 and $14,385, respectively, to Habitat for Humanity International, Inc.

Note 10. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Note 11. Endowment

Racine Habitat for Humanity, Inc. has established endowment funds. The funds were established to support the designated purposes of Racine Habitat for Humanity, Inc.

Return Objectives and Risk Parameters (Investment Policy)

See Note 3 under Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. for the return objectives and risk parameters (investment policy).

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Racine Community Foundation, Inc. relies on total return strategy in which investment returns are achieved through pooled investment accounts. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

See Note 3 under Beneficial Interest in Assets Held by the Racine Community Foundation, Inc. for the investment policy for the assets held at Racine Community Foundation, Inc.

Note 11. Endowment (cont.)

Endowment Net Asset Composition by Type of Fund as of June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	$ 75,915	$ -	$ 75,915

Changes in Endowment Net Assets for the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 75,915	$ -	$ 75,915
Investment Return			
Investment Income	1,350	-	1,350
Net Depreciation (Realized and Unrealized)	6,249	-	6,249
Total Investment Return	7,599	-	7,599
Contributions	-	-	-
Grants	(3,604)	-	(3,604)
	(3,604)	-	(3,604)
Appropriation of Endowment Assets For Expenditure	(799)	-	(799)
Endowment Net Assets, End of Year	$ 79,111	$ -	$ 79,111

Note 11. Endowment (cont.)

Spending Policy and How the Investment Objectives Relate to Spending Policy (cont.)

Endowment Net Asset Composition by Type of Fund as of June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	$ 75,915	$ -	$ 75,915

Changes in Endowment Net Assets for the Year Ended June 30, 2012

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 89,981	$ -	$ 89,981
Investment Return			
Investment Income	1,035	-	1,035
Net Depreciation (Realized and Unrealized)	(11,010)	-	(11,010)
Total Investment Return	(9,975)	-	(9,975)
Contributions	-	-	-
Grants	(3,228)	-	(3,228)
	(3,228)	-	(3,228)
Appropriation of Endowment Assets For Expenditure	(863)	-	(863)
Endowment Net Assets, End of Year	$ 75,915	$ -	$ 75,915

Note 12. Liquidity and Availability of Resources

The Organization has $589,879 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of substantially cash of $530,813 and accounts receivable of $59,066.

The Organization has addressed and is managing the cashflow for Racine Habitat for Humanity, Inc. and uses a variety of tools. The Organization has developed and instituted a monthly cashflow management report in dashboard form to assist in Board awareness surrounding liquidity and it is discussed at every Board meeting. The Board continually assesses the necessity and timing of the accounts payable, monitor their budget monthly, and have prepared a budget with planned reserves for 2023, which they are working to execute.