Habitat for Humanity of
Coastal Fairfield County, Inc.

Independent Auditors' Report
Financial Statements

December 31, 2022 and 2021

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HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

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December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Habitat for Humanity of Coastal Fairfield County, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Coastal Fairfield County, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related 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 Habitat for Humanity of Coastal Fairfield County, Inc., as of December 31, 2022 and 2021, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Coastal Fairfield County, Inc. 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, Habitat for Humanity of Coastal Fairfield County, Inc. changed its method of accounting for leases in 2022 as required by the provisions of FASB Accounting Standards Update Number 2016-02. Our opinion is not modified with respect to that matter.

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 Habitat for Humanity of Coastal Fairfield County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

In performing an audit in accordance with 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 Habitat for Humanity of Coastal Fairfield County, 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 Habitat for Humanity of Coastal Fairfield County, 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.

Whittlesey PC

Hartford, Connecticut
May 15, 2023

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statements of Financial Position

December 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,873,217	$ 1,412,727
Restricted cash	950,000	750,000
Grant and other receivables	2,789	2,789
Mortgage notes receivable, current portion	738,955	723,102
ReStore inventory	105,310	58,672
Units for resale	203,139	153,293
Construction in progress	1,252,517	1,868,086
Operating lease right-of-use asset	3,352,224	-
Other assets	36,757	36,561
Total current assets	13,514,908	5,005,230
Noncurrent assets:		
Property and equipment, net	63,742	158,166
Mortgage notes receivable, net of current portion and discount of $6,717,677 and $6,371,370, respectively	5,977,584	5,774,785
Total noncurrent assets	6,041,326	5,932,951
Total assets	$ 19,556,234	$ 10,938,181
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 146,991	$ 184,345
Deferred revenue - HTCC	700,000	1,080,000
Operating lease liabilities - current portion	358,686	-
Notes payable, current portion	200,003	208,115
Total current liabilities	1,405,680	1,472,460
Noncurrent liabilities:		
Notes payable, net of current portion and discount of $515,901 and $596,329, respectively	1,889,315	2,037,233
Operating lease liabilities - long-term portion	2,993,538	-
Total noncurrent liabilities	4,882,853	2,037,233
Total liabilities	6,288,533	3,509,693
Net assets:		
Without donor restrictions	13,017,701	7,178,488
With donor restrictions	250,000	250,000
Total net assets	13,267,701	7,428,488
Total liabilities and net assets	$ 19,556,234	$ 10,938,181

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statements of Activities

For the Years Ended December 31, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Program support and revenue:		
Contributions	$ 6,826,854	$ 1,270,744
Grants	705,485	297,835
Events	346,797	153,911
Sales of completed houses	1,577,000	970,500
ReStore income	1,950,206	1,763,112
In-kind contributions	83,510	69,289
Paycheck Protection Program	-	638,490
Bequests	6,062	2,500
Other income	22,122	39,484
Gain/(loss) on sale of mortgages	-	18,763
Total program support and revenue	11,518,036	5,224,628
Expenses:		
Program services		
Community relations	55,015	84,661
Family services	308,057	249,023
Volunteer services	154,001	197,396
ReStore project	1,580,616	1,342,490
Home building, inclusive of $918,477 and $555,261 of discount amortization on mortgage receivable	3,430,260	2,420,207
Total program expenses	5,527,949	4,293,777
Support services		
Fundraising	349,834	307,793
Management and general	452,328	404,883
Total support services	802,162	712,676
Total expenses	6,330,111	5,006,453
Change in net assets without donor restrictions before other revenue/(expenses)	5,187,925	218,175
Other revenue/(expenses):		
Interest income	79,117	325
Mortgage discount amortization	572,171	553,850
Total other revenue/(expenses)	651,288	554,175
Change in net assets without donor restrictions	5,839,213	772,350
Total change in net assets	5,839,213	772,350
Net assets, beginning of year	7,428,488	6,656,138
Net assets, end of year	$ 13,267,701	$ 7,428,488

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2022

	Community Relations	Family Services	Volunteer Services	ReStore Project	Home Building	Total Program	Fundraising	Management and General	Total
Costs of houses sold	$ -	$ -	$ -	$ -	$ 1,763,209	$ 1,763,209	$ -	$ -	$ 1,763,209
Other expenses									
Personnel costs	46,725	233,129	121,316	387,914	299,493	1,088,577	227,046	190,152	1,505,775
Rent and related occupancy	2,746	13,096	4,647	426,059	149,553	596,101	15,842	13,519	625,462
Sub-contractor labor	-	-	-	254,448	-	254,448	-	-	254,448
Small tools and supplies	-	-	-	230,294	5,515	235,809	-	-	235,809
Employee benefits	-	22,285	6,715	16,325	33,145	78,470	33,526	50,398	162,394
Payroll taxes	3,828	19,100	9,939	30,927	27,748	91,542	16,741	15,077	123,360
Insurance	-	-	-	-	74,465	74,465	-	41,817	116,282
Discount on notes payable	-	-	-	-	80,428	80,428	-	-	80,428
Utilities	-	-	-	38,296	18,730	57,026	-	6,243	63,269
Advertising and promotion	-	7,455	5,909	5,537	-	18,901	20,567	20,320	59,788
Bank and credit card fees	-	-	-	47,804	-	47,804	-	11,895	59,699
Computer expenses	-	1,600	3,719	2,265	-	7,584	15,599	32,189	55,372
Vehicle	-	-	-	35,940	9,280	45,220	-	-	45,220
Maintenance and repairs	-	-	-	35,071	900	35,971	-	4,422	40,393
Office supplies	-	1,873	-	21,965	-	23,838	3,107	13,286	40,231
Professional fees	-	3,508	-	-	-	3,508	-	32,900	36,408
Fuel/other expenses	-	-	-	23,018	4,566	27,584	-	-	27,584
Interest	-	-	-	-	25,019	25,019	-	-	25,019
Telephone	-	1,717	1,717	8,220	2,944	14,598	3,543	3,294	21,435
Dues and subscriptions	415	2,099	-	4,133	4,289	10,936	3,534	3,557	18,027
Travel, meals, entertainment	-	355		590	237	1,182	2,282	9,959	13,423
Postage and freight	-	1,218	-	85	597	1,900	7,814	898	10,612
Other office expenses	1,301	622	39	975	640	3,577	233	1,239	5,049
Tithe to national affiliate	-	-	-	-	3,000	3,000	-	-	3,000
Real estate owned	-	-	-	-	2,761	2,761	-	-	2,761
Total expenses before discount amortization on mortgage receivable and depreciation	55,015	308,057	154,001	1,569,866	2,506,519	4,593,458	349,834	451,165	5,394,457
Discount amortization on mortgage receivable	-	-	-	-	918,477	918,477	-	-	918,477
Depreciation/amortization	-	-	-	10,750	5,264	16,014	-	1,163	17,177
Total expenses	$ 55,015	$ 308,057	$ 154,001	$ 1,580,616	$ 3,430,260	$ 5,527,949	$ 349,834	$ 452,328	$ 6,330,111

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2021

	Community Relations	Family Services	Volunteer Services	ReStore Project	Home Building	Total Program	Fundraising	Management and General	Total
Costs of houses sold	$ -	$ -	$ -	$ -	$ 1,011,544	$ 1,011,544	$ -	$ -	$ 1,011,544
Other expenses									
Personnel costs	67,488	178,405	111,966	376,105	339,467	1,073,431	184,415	192,328	1,450,174
Rent and related occupancy	2,645	12,615	4,476	396,824	144,054	560,614	15,260	13,022	588,896
Sub-contractor labor	-	-	-	215,768	-	215,768	-	-	215,768
Employee benefits	8,827	18,715	11,389	30,745	36,227	105,903	29,667	37,588	173,158
Insurance	-	-	-	-	132,603	132,603	-	39,322	171,925
Payroll taxes	5,152	14,354	7,201	30,342	35,916	92,965	14,854	16,187	124,006
Professional fees	-	1,712	52,173	-	-	53,885	-	30,859	84,744
Discount on notes payable	-	-	-	-	79,642	79,642	-	-	79,642
Small tools and supplies	-	-	-	72,291	4,259	76,550	-	375	76,925
Advertising and promotion	-	12,812	3,746	11,942	410	28,910	38,796	302	68,008
Utilities	-	-	-	37,797	17,272	55,069	-	3,519	58,588
Bank and credit card fees	-	-	-	49,368	-	49,368	-	8,345	57,713
Computer expenses	-	1,253	3,758	876	-	5,887	14,928	29,507	50,322
Vehicle	-	-	-	27,920	8,763	36,683	-	-	36,683
Maintenance and repairs	-	-	-	29,622	1,390	31,012	-	5,555	36,567
Office supplies	-	974	46	20,669	987	22,676	2,410	10,885	35,971
Interest	-	-	-	-	30,394	30,394	-	-	30,394
Dues and subscriptions	415	4,234	702	3,969	4,393	13,713	2,899	5,062	21,674
Telephone	-	2,180	1,712	7,903	2,944	14,739	2,929	2,202	19,870
Fuel/other expenses	-	-	-	16,047	3,423	19,470	-	-	19,470
Other office expenses	134	1,326	227	900	1,156	3,743	773	663	5,179
Training	-	60	-	-	-	60	-	4,673	4,733
Travel, meals, entertainment	-	-	-	85	332	417	112	2,700	3,229
Tithe to national affiliate	-	-	-	-	3,000	3,000	-	-	3,000
Real estate owned	-	-	-	-	1,840	1,840	-	-	1,840
Postage and freight	-	383	-	-	-	383	750	626	1,759
Total expenses before discount amortization on mortgage receivable and depreciation	84,661	249,023	197,396	1,329,173	1,860,016	3,720,269	307,793	403,720	4,431,782
Discount amortization on mortgage receivable	-	-	-	-	555,261	555,261	-	-	555,261
Depreciation/amortization	-	-	-	13,317	4,930	18,247	-	1,163	19,410
Total expenses	$ 84,661	$ 249,023	$ 197,396	$ 1,342,490	$ 2,420,207	$ 4,293,777	$ 307,793	$ 404,883	$ 5,006,453

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 5,839,213	$ 772,350
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	17,177	19,410
Mortgage discount amortization income	(572,171)	(553,850)
Mortgage discount amortization expense	918,477	555,261
CHFA mortgage discount	80,428	79,642
(Increase)/decrease in assets:		
Grant and other receivables	-	605,800
ReStore inventory	(46,638)	(42,187)
Units for resale - purchased buy backs	(215,480)	(20,000)
Units for resale - sold during the year	165,634	92,500
Construction in progress	615,569	(14,732)
Other assets	(196)	(17,950)
Increase/(decrease) in liabilities		
Accounts payable and accrued expenses	(37,354)	(17,037)
Deferred revenue - HTCC	(380,000)	340,000
Refundable Advance - Paycheck Protection Program	-	(319,245)
Net change in cash from operating activities	6,384,659	1,479,962
Cash flows from investing activities:		
Purchase of property and equipment	-	(84,156)
Proceeds from disposal of property and equipment	77,247	-
Principal receipts on mortgage receivable	1,012,042	866,268
New loans originated	(1,577,000)	(970,500)
Net change in cash from investing activities	$ (487,711)	$ (188,388)

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Statements of Cash Flows (continued)

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from financing activities:		
Principal payments on notes payable	$ (236,458)	$ (315,933)
Proceeds from notes payable	-	36,917
Net change in cash from financing activities	(236,458)	(279,016)
Change in cash, cash equivalents and restricted cash	5,660,490	1,012,558
Cash, cash equivalents and restricted cash, beginning of year	2,162,727	1,150,169
Cash, cash equivalents and restricted cash, end of year	$ 7,823,217	$ 2,162,727
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 25,019	$ 30,394
Noncash operating and financing transactions		
Amortization of mortgage notes receivable discount	$ 918,477	$ 555,261
Recording right-of-use asset and lease liability under ASC 842	$ 3,352,224	$ -

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity of Coastal Fairfield County (the “Organization”) is a not-for-profit organization that provides home ownership for working low-income families through new construction or renovation of existing housing stock. The Organization also operates a not-for-profit retail store (the “ReStore”) which sells discounted used furniture and building supplies. The Organization’s programs are supported by contributions, grants, ReStore and receipts of homeowner mortgage repayments. Houses are sold to the homeowners at below cost. The Organization provides a mortgage for 100% of the purchase price, at 0% interest. Repayments on these mortgages contribute to the production of additional housing.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis.

Basis of Presentation
Financial statement presentation follows *Financial Statements of Not-for-Profit Organizations* topic of the Financial Accounting Standards Board Codification (“ASC”). Under this topic, the Organization reports 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, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Net assets without donor restrictions* – These net assets are defined as assets that are free of donor-imposed restrictions and include all investment income and appreciation not subject to donor-imposed restrictions.
>
> *Net assets with donor restrictions* – These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization.

Restricted Cash
The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the total of the same amounts shown in the statements of cash flows:

	2022	2021
Cash and cash equivalents	$ 6,873,217	$ 1,412,727
Restricted cash	950,000	750,000
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 7,823,217	$ 2,162,727

Cash and Cash Equivalents
Cash and cash equivalents include cash and all highly liquid instruments with an original maturity of three months or less. The Organization maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of $2,500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful lives. Estimated lives for financial reporting purposes are as follows:

Building	10 years
Furniture and fixtures	5 - 7 years
Equipment	5 years
Vehicles	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

Revenue and Revenue Recognition

Contributions – The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Donated Materials and Services – In-kind contributions consist of discounts on materials and services provided by various contractors. The total amount of in-kind contributions recognized in contributions on the statements of activities for the years ended December 31, 2022 and 2021, was $83,510 and $69,289, respectively. In determining the fair value of in-kind contributions, contractors were inquired by management and suggested retail prices for their donated materials and services.

In-kind contributions consisted of the following for the years ended December 31,:

	2022	2021
Donated construction services	$ 65,660	$ 47,085
Donated professional services	10,154	4,743
Donated materials	7,696	17,461
Total in-kind contributions	$ 83,510	$ 69,289

A substantial number of volunteers have donated time to the Organization by helping in the construction and renovation of houses or in providing support services. Total volunteer hours calculated were approximately 20,000 and 17,500 for the years ended December 31, 2022 and 2021, respectively.

Donated Goods – The ReStore receives donated home furnishings, building supplies, paint and paint supplies, flooring, and other home improvement items to sell in the ReStore. The revenue from a sale of donated goods is recognized with the ReStore income. Donated products for sale in the ReStore are valued at 30% of the manufacturer's suggested retail price for the product.

Sales to Homeowners – Homes are sold to buyers that meet the Organization's qualification guidelines. The resulting mortgage are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. The Organization recognizes the income from sales to homeowners on the completed contract method when home closings occur.

ReStore Income – The Organization sells donated and purchased inventory through its ReStore location in Stratford, CT. Donations to its ReStore are made by contractors and other businesses, organizations and individuals that have surplus or discontinued merchandise.

The purpose of the ReStore is to raise funds to support the Organization's programs. Accordingly, expenses of operating the ReStore are reported as program expenses in the consolidated statements of functional expenses. The amount of revenue reported from the ReStore includes cash receipts plus the fair market value of donated goods sold, net of the cost of purchased inventory sold. As most revenue earned by the ReStore is from the sale of donated goods, ReStore revenue is classified as support in the consolidated statements of activities and changes in net assets. The total amount of income recognized from ReStore sales on the statements of activities for the years ended December 31, 2022 and 2021, was $1,950,206 and $1,763,112, respectively.

Grants and Contracts – A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position. The Organization received cost-reimbursable grants of $700,000 that have not been recognized at December 31, 2021, respectively, because qualifying expenditures have not yet been incurred, with an advance payment of $700,000 recognized in the statements of financial position as deferred revenue. During the year ended December 31, 2022, $380,000 of deferred revenue was recognized as grants income.

Special Events – The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place. The Organization recognizes revenue from ticket sales at the time of admission.

Restore Inventory

The inventory on hand is purchased furniture and fixtures with the intention to be resold by the Restore. Donated items are not recorded as inventory due to the high turnover. Inventory is expected to have a turnover of less than a year. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Inventory is recorded net of any allowance for obsolescence on the consolidated statement of financial position. For the years ended December 31, 2022 and 2021, there was no loss for obsolescence recorded.

Note 1 – Organization and Significant Accounting Policies *(Continued)*

Functional Expenses

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

The financial statements report certain categories of expenses that are attributable to one or more program and supporting functions of the Organization. Those expenses include rent and related occupancy expenses, personnel costs, employee benefits and computer expenses. Rent and related occupancy expenses are allocated by square footage and then by head count for shared spaces. Personnel costs and certain employee benefits are allocated by estimates of time and effort. Computer expenses are allocated by costs of specific technology utilized.

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 affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Exempt Status

The Organization is exempt from Federal income taxes as a public charity under Internal Revenue Code Section 501(c)(3) and from Connecticut income taxes; therefore, no provision has been made for Federal or State income taxes in the accompanying financial statements.

Receivables

Grant and other receivables arising from regular operations are stated net of an allowance for doubtful accounts. Allowances are set based on assessments by management as to the collectability of individual accounts. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

Adoption of New Accounting Pronouncement

FASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requires not for- profits to present contributed nonfinancial assets as a separate line item in the statement activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The Organization implemented ASU 2020-07 on January 1, 2022 using a full retrospective method of application. The adoption of ASU 2020-07 resulted in changes to the presentation and disclosure of contributed nonfinancial assets.

Adoption of ASU No. 2016-02, Leases (Topic 842) - The amendments in this update require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. The guidance was effective for the Organization on January 1, 2022. The adoption requires either a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented, or a cumulative effect adjustment as of the date of adoption. The Organization adopted this new guidance on January 1, 2022 and as a result, the Organization recorded a lease right-of-use asset and lease liability of $3,352,224 through a cumulative effect adjustment as of that date. In July 2018, the FASB issued ASU No. 2018-11, which provided a practical expedient package for lessees. The Organization elected to use the expedient package and did not reassess whether any existing contracts contain leases; did not reassess the lease classification for existing leases; and did not reassess initial direct costs for any existing leases. As a result, all leases are considered operating leases.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The Organization determines if an arrangement is a lease at inception. Lease right-of-use ("ROU") assets represent the Organization's right to use an underlying asset for the lease term and operating lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Organization's leases do not provide an implicit rate, the Organization uses its risk free rate equivalent to the rate of a zero coupon U.S. Treasury instrument at commencement date in determining the present value of lease payments. The lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately.

Reclassification
Certain reclassifications have been made to the December 31, 2021 financial statements to conform to the December 31, 2022 financial statement presentation.

Subsequent Events Measurement Date
The Organization monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the fiscal year ended December 31, 2022 through May 15, 2023, the date on which financial statements were available to be issued.

NOTE 2 – MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable represent non-interest bearing amounts due from individuals who have purchased homes constructed by the Organization. These amounts are to be paid over terms ranging from twenty to forty years. Mortgage notes receivable consist of the following at December 31,:

	2022	2021
Gross mortgage notes receivable	$ 13,434,216	$ 12,869,257
Unamortized discount on non-interest bearing mortgage receivables	(6,717,677)	(6,371,370)
Net present value	$ 6,716,539	$ 6,497,887

Since the above referred mortgage notes are non-interest bearing, the net present value of each of these notes is less than face value. The net present value of these notes was determined using an imputed interest rate ranging between 6.00% and 9.00%. These interest rates are used in the discount calculation and are reviewed on an annual basis. Assumptions are based on ever changing market conditions. The servicing of these mortgages is performed by a third party. The change in the unamortized discount is reflected in income.

NOTE 2 – MORTGAGE NOTES RECEIVABLE *(CONTINUED)*

Maturities of the mortgage notes receivable over the next five years and thereafter are as follows:

For the years ending December 31,:	
2023	$ 738,955
2024	734,541
2025	728,864
2026	723,731
2027	706,583
Thereafter	9,801,542
	$ 13,434,216

NOTE 3 – UNITS FOR RESALE

Units for resale are comprised of properties that have been re-acquired by the Organization through either a sale transaction with an existing homeowner or a foreclosure. Properties are foreclosed upon after the homeowner has become seriously delinquent in their loan payments and all reasonable attempts to work with the homeowner have failed. These properties are rehabilitated and sold to a new low-income family, consistent with the Organization's mission. The balance of the real estate owned as of December 31, 2022 and 2021 is $203,139 and $153,293, respectively.

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents cumulative amounts expended to date on land, building, and renovation costs on properties to be sold.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31,:

	2022	2021
Building	$ 206,921	$ 206,921
Furniture and fixtures	38,034	38,034
Equipment	66,686	66,686
Vehicles	287,174	364,421
Leaseholds - ReStore	40,451	40,451
	639,266	716,513
Accumulated depreciation	(575,524)	(558,347)
	$ 63,742	$ 158,166

NOTE 6 – LINE OF CREDIT

The Organization has a line of credit of $300,000 with Connecticut Community Bank, N.A., with $-0- drawn on December 31, 2022 and 2021. The line of credit is renewable annually, and has an interest rate of prime which was 3.25% at December 31, 2022 and 2021. The line is secured by all assets of the Organization.

NOTE 7 – NOTES PAYABLE AND LONG-TERM DEBT

The following is a summary of the principal balances of notes payable at December 31, 2022 and 2021:

Payable to	Current interest rate	Maturity date	2022	2021
Citizens Bank	2.00%	November, 2024	$ 500,000	$ 500,000
Isuzu Finance of America, Inc.	6.79%	March, 2022	-	5,238
Habitat for Humanity International - Flex Cap	4.75%	December, 2026	248,494	295,226
Mutual Housing Association of Southwestern CT	0.00%	September, 2045	52,571	54,857
Connecticut Housing Finance Authority	0.00%	November, 2041	1,555,165	1,725,411
Key Bank	0.00%	December, 2031	27,325	30,776
Fairfield County Bank Corporation	0.00%	January, 2034	71,764	80,269
SBA Economic Injury disaster loan	2.75%	June, 2050	149,900	149,900
Total notes payable, before discount			2,605,219	2,841,677
Discount			(515,901)	(596,329)
Total notes payable, net present value			$ 2,089,318	$ 2,245,348

Aggregate principal payments on the notes payable over the next five years and thereafter are, as follows:

For the years ending December 31,:	
2023	$ 200,003
2024	697,728
2025	200,455
2026	200,822
2027	165,438
Thereafter	1,140,773
	$ 2,605,219

The Citizens Bank note is unsecured. All other notes are secured by various individual properties.

The Organization sold loans issued to homeowners to Key Bank, Fairfield County Bank Corporation and Connecticut Housing Finance Authority (CHFA). These loans were sold with recourse, meaning that the Organization has an obligation to repurchase these loans if certain conditions of the sale are not met. The recourse is in place until the loan has been repaid. As a result of the obligation to repurchase, these transactions were not treated as a sale. The outstanding balance of these loans is included in the mortgages receivable balance on the statements of financial position. The discount on these sold loans is included in the discount balance on the statements of financial position.

The notes payable that were made available through CHFA, Fairfield County Bank Corporation and Key Bank are non-interest bearing notes. As such, the net present value of each of these notes is less than face value. The net present value of these notes (at an imputed interest rate of 6.50%) is $1,039,264 and $1,129,082 at December 31, 2022 and 2021, respectively. The change in the discount on notes payable is reflected in Discount on Notes Payable expense.

NOTE 8 – RETIREMENT BENEFITS

The Organization has a discretionary contribution retirement plan called "Habitat 401(k) Plan". Participants must be 21 years old and have one year of eligible service with at least 1,000 hours of service. Participants may make a pre-tax savings contribution to the Plan. The Organization makes a safe harbor non-elective contribution equal to 3% of participants' compensation. Each year the Organization, at its discretion, may make a matching contribution. For the years ended December 31, 2022 and 2021, the Organization's contributions were $30,010 and $42,560.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets of $250,000 as of December 31, 2022 and 2021, were restricted by donors for the purpose of housing construction. As of December 31, 2022 and 2021, no net assets with donor restrictions were released from restriction to be used for housing construction.

NOTE 10 – LEASES

The Organization leases office and warehouse space for $10,696 per month with scheduled rent increases and additional common area maintenance (CAM) charges. The amended lease expires in September 2023. The Organization also leases retail space for the ReStore for $24,114 per month, with scheduled rent increases annually of 3%. The ReStore lease was amended during 2015, with 10,000 square feet of additional space being added to the lease and used the option to extend through March 2033.

For the year ended December 31, 2022, total operating lease cost was $424,079, and total short-term lease cost was approximately $199,404.

Future minimum lease payments are discounted at a risk free rate equivalent to the rate of a zero coupon U.S. Treasury instrument as of January 1, 2022 for the same period of time as the lease term. At January 1, 2022, the zero coupon U.S. Treasury rate was 3.86%. Future minimum lease payments and reconciliation to the statement of financial position for the fiscal years ending December 31,:

2023	$ 358,686
2024	298,047
2025	306,988
2026	316,198
2027	325,684
Thereafter	1,875,361
Total future undiscounted lease payments	3,480,964
Less present value discount	(128,740)
Operating lease liability	$ 3,352,224

NOTE 11 – LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows for December 31,:

	2022	2021
Cash and cash equivalents	$ 6,873,217	$ 1,412,727
Grants and other receivables	2,789	2,789
Mortgage notes receivable, current portion	738,955	723,102
Financial assets available to meet cash needs for general expenditures within one year	$ 7,614,961	$ 2,138,618

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations will continue to be met, ensuring the sustainability of the Organization.

To help manage unanticipated liquidity needs, the Organization has committed to a line of credit in the amount of $300,000 which it could draw upon. Additionally, the Organization has an existing agreement with the CHFA which allows the Organization to sell its mortgage receivables for cash proceeds. As of December 31, 2022 and 2021, the Organization had $10,251,909 and $9,230,496, respectively, in unpledged, undiscounted mortgage receivables.

NOTE 12 – REFUNDABLE ADVANCE – PAYCHECK PROTECTION PROGRAM

During April 2020, the Organization received approval for a SBA Paycheck Protection Program (PPP) loan in the amount of $319,245. Under the PPP, funds are forgivable if utilized for qualified expenditures according to the program criteria incurred over the eight week or twenty-four week period following the date of funding. In order to qualify for forgiveness, 60% of the funding must be spent on eligible payroll expenses, and up to 40% may be spent on other eligible expenditures, such as rent and utilities. As outlined by the SBA, any unforgiven balance must be repaid over two years at an annual interest rate of 1% with an initial deferment period of ten months from the end of the covered period (interest will accrue).

On March 26, 2021, the Organization obtained complete forgiveness approval from the SBA of its first PPP loan in the amount of $319,245 and recognized the full amount as revenue.

During January 2021, the Organization received approval for a second Paycheck Protection Program ("PPP") loan in the amount of $319,245.

On October 5, 2021, the Organization obtained complete forgiveness approval from the SBA of its second PPP loan in the amount of $319,245 and recognized the full amount as revenue.

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