HABITAT FOR HUMANITY OF GREATER NEWARK, INC.

Financial Statements

For the year ended June 30, 2023

(With Independent Auditors' Report Thereon)

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
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To the Board of Directors of
Habitat for Humanity of Greater Newark, Inc.

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Greater Newark, Inc. (a nonprofit organization), 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Newark, 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 and 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 Habitat for Humanity of Greater Newark, 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 Habitat for Humanity of Greater Newark, Inc. 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 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 Habitat for Humanity of Greater Newark, 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 Greater Newark, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2024, on our consideration of Habitat for Humanity of Greater Newark, Inc.'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 Habitat for Humanity of Greater Newark, Inc.'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 Habitat for Humanity of Greater Newark, Inc.'s internal control over financial reporting and compliance.

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 2, 2024
Lakewood, New Jersey

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors of
Habitat for Humanity of Greater Newark, Inc.

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 Habitat for Humanity of Greater Newark, Inc. (a nonprofit Organization), 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 June 2, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Greater Newark, Inc. 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 Habitat for Humanity of Greater Newark, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Greater Newark, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of financial statement findings as item 2023-01 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Greater Newark, Inc. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, PC.
Certified Public Accountants

June 2, 2024
Lakewood, New Jersey

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
Statement of Financial Position
June 30, 2023

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,293,963
Critical repair receivables	66,820
Pledges receivable, current	100,000
Mortgages receivable, current	102,084
Prepaid expenses	10,402
Total current assets	1,573,269
Non-current assets:	
Pledges receivable, net	141,498
Mortgages receivable, net	390,523
Security deposit	38,916
Other assets	5,312
Construction in progress	461,055
Property and equipment, net	51,837
Right of use operating lease assets, net of amortization	1,837,493
Total non-current assets	2,926,634
Total assets	$ 4,499,903
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	$ 137,640
Accrued interest	57,739
Construction loans payable	118,734
Line of credit	193,580
Operating lease liability, current	256,896
Financing lease liability, current	2,711
Notes payable, current	45,469
Total current liabilities	812,769
Long-term liabilities:	
Operating lease liability, net of current portion	1,737,941
Financing lease liability, net of current portion	5,209
Notes payable, net of current	288,475
Total long-term liabilities	2,031,625
Total liabilities	2,844,394
NET ASSETS	
Without donor restrictions:	
Board designated for mortgages and loans	297,348
Undesignated	929,525
Total net assets without donor restrictions	1,226,873
With donor restrictions	428,636
Total net assets	1,655,509
Total liabilities and net assets	$ 4,499,903

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

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
Statement of Activities
For the year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions:			
Foundations	$ 337,545	$ 315,000	$ 652,545
Critical home repairs	209,972	-	209,972
Corporations	315,876	10,000	325,876
Individuals	108,920	-	108,920
Vehicle sales	116,111	-	116,111
Other contributions	870	-	870
Sales to homeowners	370,000	-	370,000
ReStore sales	829,047	-	829,047
Special events	40,944	-	40,944
Amortization of mortgage discount	13,405	-	13,405
Net assets released from restrictions	72,669	(72,669)	-
Total revenues and support	2,415,359	252,331	2,667,690
Expenses:			
Program services	2,240,642	-	2,240,642
General and administrative	513,930	-	513,930
Fundraising	284,443	-	284,443
Total expenses	3,039,015	-	3,039,015
Changes in net assets from operations	(623,656)	252,331	(371,325)
Non-operating income:			
Other revenue	11,939	-	11,939
Interest income	192	-	192
Total non-operating income	12,131	-	12,131
Changes in net assets	(611,525)	252,331	(359,194)
Net assets, July 1	1,838,398	176,305	2,014,703
Net assets, June 30	$ 1,226,873	$ 428,636	$ 1,655,509

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

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
Statement of Functional Expenses
For the year ended June 30, 2023

	Program Services						Support Services		
	Direct Housing Costs	Family Services & Compliance	Neighborhood Revitalization	Construction/ Program Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Salaries, taxes and employee benefits	$ -	$ 70,131	$ -	$ 387,350	$ 520,456	$ 977,937	$ 221,193	$ 102,009	$ 1,301,139
General construction costs	370,506	-	-	-	-	370,506	-	-	370,506
Lease expense	-	-	-	-	279,173	279,173	69,793	-	348,966
Professional fees	-	-	30,980	25,150	42,055	98,185	63,111	116,913	278,209
Critical repairs	95,260	-	-	-	-	95,260	-	-	95,260
Public relations and advertising	-	-	-	-	34,554	34,554	-	34,553	69,107
Resource Hub program	-	-	65,602	-	-	65,602	-	-	65,602
Comfort Partners program	59,647	-	-	-	-	59,647	-	-	59,647
Utilities	-	-	15,258	-	15,257	30,515	15,258	-	45,773
Insurance	-	-	-	14,364	14,364	28,728	14,364	-	43,092
Interest on debt obligations	-	-	-	-	-	-	42,094	-	42,094
Travel	-	2,500	-	2,500	24,460	29,460	6,413	-	35,873
Equipment rental and storage	-	-	-	-	30,250	30,250	-	-	30,250
Training and recruitment	-	-	-	-	14,856	14,856	14,805	-	29,661
Office supplies and other office expenses	-	-	7,332	-	14,663	21,995	7,331	-	29,326
Fees	-	-	-	-	-	-	25,687	-	25,687
Special events	-	-	-	-	-	-	-	25,680	25,680
U.S. stewardship and organization sustainability fee	25,000	-	-	-	-	25,000	-	-	25,000
Tithing	24,143	-	-	-	-	24,143	-	-	24,143
Repairs and maintenance	-	-	-	22,389	-	22,389	-	-	22,389
Telephone and internet	-	-	7,224	-	7,223	14,447	7,223	-	21,670
Meals and entertainment	-	-	-	-	8,358	8,358	8,358	-	16,716
Employee reimbursements	1,257	1,257	-	1,257	-	3,771	4,857	1,257	9,885
Depreciation expense	-	-	-	-	-	-	6,946	-	6,946
Amortization of mortgages receivable	4,866	-	-	-	-	4,866	-	-	4,866
Dues and subscriptions	-	-	-	-	1,000	1,000	2,881	-	3,881
Postage and shipping	-	-	-	-	-	-	-	3,204	3,204
Amortization of financing leases	-	-	-	-	-	-	2,312	-	2,312
Miscellaneous	-	-	-	-	-	-	899	-	899
Printing	-	-	-	-	-	-	-	827	827
Interest expense - financing leases	-	-	-	-	-	-	405	-	405
Total expenses	$ 580,679	$ 73,888	$ 126,396	$ 453,010	$ 1,006,669	$ 2,240,642	$ 513,930	$ 284,443	$ 3,039,015

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

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
Statement of Cash Flows
For the year ended June 30, 2023

		2023
Cash flows from operating activities:		
Changes in net assets	$	(359,194)
Items which did not use cash:		
Depreciation and amortization		6,946
Amortization of right of use financing lease assets		2,312
Amortization of right of use operating lease assets		177,855
Accretion of discounted lease liabilities		147,428
Amortization of mortgage discount		(13,405)
Discount on pledges receivable		8,502
Working capital changes which (used)/provided cash:		
Critical repair receivables		(66,820)
Accounts receivable		6,414
Pledges receivable		(250,000)
Prepaid expenses		9,916
Construction in progress		(151,354)
Accounts payable and accrued expenses		7,837
Accrued interest		37,832
Deferred rent		(88,826)
Operating lease liability		(167,939)
Net cash flows from operating activities		(692,496)
Cash flows from investing activities:		
Purchase of property and equipment		(21,000)
Proceeds from mortgages receivable		142,193
Net cash flows from investing activities		121,193
Cash flows from financing activities:		
Repayment of construction loan payable		(174,158)
Repayment of line of credit		(7,207)
Repayment of notes payable		(44,219)
Financing lease payments		(2,089)
Net cash flows from financing activities		(227,673)
Net change in cash and cash equivalents		(798,976)
Cash and cash equivalents, beginning of year		2,092,939
Cash and cash equivalents, end of year		1,293,963
Supplementary information:		
Interest paid	$	21,470
Right of use assets obtained in exchange for operating lease liabilities	$	2,015,348
Right of use assets obtained in exchange for financing lease liabilities	$	10,009

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

NOTE 1: NATURE OF ORGANIZATION

Habitat for Humanity of Greater Newark, Inc. (the "Organization" or "Habitat"), formerly doing business as Habitat for Humanity Newark, Inc., was incorporated on May 19, 1986 under the laws of the State of New Jersey as a not-for-profit organization affiliated with Habitat for Humanity International, Inc., (HFHI), an ecumenical not-for-profit organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor, some paid labor, and donations of money and materials, Habitat builds simple, decent houses with the help of low-income homeowner families. The Organization focuses its efforts in Essex County, Hudson County, and most of Union County, New Jersey.

The houses built by Habitat and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowners' monthly mortgage payments are used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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 and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor imposed (or certain grantor imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes all cash balances and highly liquid investments with a maturity of three months or less.

Critical Repair Receivables

Critical repair receivables are stated at the amount management expects to collect from outstanding accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. All outstanding critical repair receivables are deemed collectible and therefore there is no allowance for doubtful accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Pledges Receivable

Pledges, including unconditional promises to give, are initially recognized at fair value as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. In accordance with Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Entities: Receivables*, contribution pledges due in one or more years are discounted to their net present value at the time the revenue is recorded. Pledges receivable were discounted at a rate of 4.5%. All outstanding pledges receivable are deemed collectible and therefore there is no allowance for doubtful accounts.

Mortgage Receivable

Mortgages receivable consists of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments, with original maturities ranging from 10 to 30 years. All of the mortgages are related to new construction and the rehabilitation of existing homes rehabilitated by the Organization. These mortgages are shown on the statement of financial position discounted at the prevailing interest rate for the time value of money provided HFHI, which reflect current market conditions. The discount rate for the year ended June 30, 2023 was 7.85%. Amortization revenue is recorded using the straight-line method over the lives of the mortgages.

Because the mortgages are secured by the deeds of the trust on the respective properties, management believes that no allowance for doubtful mortgages is necessary and no provision for loan losses has been recorded as of June 30, 2023.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

Conditional – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

Unconditional – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers are met. If funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the statement of financial position for the amount of funds provided by the donor.

Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Exchange Transactions

The Organization recognizes earned revenues in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Sales to Homeowners – Homes are sold to buyers that meet the Organization's qualification guidelines. To determine the transaction price, the recorded sale amount to the homeowner is the appraised value of the home, net of the applicable discount, which reflects the consideration to which the Organization expects to be entitled in exchange for the home. Performance obligations are determined to be the contractual sale and closing of each home, which is considered to be a standalone performance obligation. The Organization recognizes revenue at a point in time, as the buyer does not control the asset until construction is complete and the closing has taken place.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Exchange Transactions (continued)

ReStore Sales – Habitat's retail thrift store operation specializes in selling surplus new and used building and home improvement materials, appliances, and furniture to the public. These sales are recorded at a determined transaction price, which varies by item. The Organization recognizes revenue from these sales upon delivery of the goods to the customer, which occurs at the point of the sale. Performance obligations are determined to be the completed sale of each item.

Special Events

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event- the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the statement of activities and changes in net assets or the notes to financial statements. The performance obligation is delivery of the event, which is usually accompanied by a presentation. The event fee is set by the Organization. Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09 requires allocation of the transaction price to the performance obligation(s). Accordingly, the Organization separately presents in its statement of activities and changes in net assets or notes to financial statements the exchange and contribution components of the gross proceeds from special events. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (unearned revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, the Organization follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component.

All other revenue is recognized as services are rendered. Amounts collected in advance of services being provided or events are recorded as deferred revenue.

Donated ReStore Items

Donations of ReStore items are not valued, nor is an inventory of such items used for financial reporting. This accounting treatment is based on ASC 958, *Contributions Received*, where a major uncertainty about the existence of value may indicate that an item received or given should not be recognized. ASC 845, *Initial Measurement*, also applies that fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value.

Prepaid Expenses

Prepaid expenses are amounts paid in the current year which benefit future periods.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment is recorded at cost, except for donated assets, which are recorded at their estimated fair market value at the date of donation. Such donations are reported as without donor restriction unless the donor has restricted the donated asset to a specific purpose. Betterments and renewals in excess of $1,000 are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated lives are as follows:

Buildings and improvements	10-25 years
Leasehold improvements	5-10 years
Furniture and equipment	15 years
Vehicles and transportation equipment	3-8 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Right-of-Use Asset and Lease Liability

Right-of-use assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount of fair value less costs to sell. The Organization had no assets held for disposal as of June 30, 2023.

Federal and State Income Taxes

The Organization is a non-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes.

The Organization is required to file Form 990*, Return of Organization Exempt from Income Tax*, with the Internal Revenue Service and the *New Jersey Charities Registration & Investigation Form (CRI)*. The Organization follows the income tax standards for uncertain tax positions.

This standard had no impact on the Organization’s financial statements. The Organization’s income tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income taxes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of Recently Issued Accounting Pronouncements Adopted in the Current Year

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new ASU requires lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and lease back transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees are no longer provided with a source of off-statement of financial position financing. This standard became effective for nonpublic businesses for fiscal years beginning after December 15, 2021.

In the current year, the Organization adopted the guidance and under ASU 2016-02, *Leases (Topic 842)* and subsequent amendments thereto, which requires the Organization to recognize most leases on the statement of financial position. The Organization adopted the standard under a modified retrospective approach as of the date of the adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Organization is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $2,015,348, and operating lease liabilities of $2,104,173 as of July 1, 2022. Additionally, financing right-of-use assets of $10,009 and financing right-of-use liabilities of $10,175 were recognized as of July 1, 2022. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the U.S. Treasury risk-free rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Organization's statement of activities. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures regarding the Organization's leasing activities are presented in Note 16.

Subsequent Events

The Organization has evaluated subsequent events occurring June 30, 2023 through June 2, 2024, which is the date the financial statements were available to be issued. See Note 10 and Note 11 for additional information.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the Organization as of June 30, 2023, consisted of the following:

Demand deposits	$ 1,287,853
Paypal	5,752
Petty Cash	358
Total cash and cash equivalents	$ 1,293,963

Custodial Credit Risk

Deposits in financial institutions, reported as components of cash had a bank balance of $1,287,849 at June 30, 2023, of which $764,324 was insured by depository insurance.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash investments. The Organization limits the amount of credit exposure to any one financial institution and invests cash in accounts with high credit quality.

NOTE 4: PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2023:

Pledges expected to be collected in:	
Less than one year	$ 100,000
One to five years	150,000
Total pledges receivable	250,000
Less: present value discount at a rate of 4.5%	(8,502)
Total pledges receivable, net	241,498
Less: current portion	(100,000)
Long-term pledges receivable, net	$ 141,498

NOTE 5: MORTGAGES RECEIVABLE

Mortgages receivable consisted of the following as of June 30, 2023:

Mortgages receivable	$ 835,545
Less: unamortized mortgage discount	(342,938)
Total mortgages receivable, net	492,607
Less: current portion	(102,084)
Long-term mortgages receivable, net	$ 390,523

NOTE 5: MORTGAGES RECEIVABLE (continued)

Future balances due on mortgages receivable are scheduled to be received as follows for the years ended June 30:

2024	$ 102,084
2025	95,381
2026	80,440
2027	70,675
2028	63,905
Thereafter	423,060
Total	$ 835,545

NOTE 6: CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred to build/rehabilitate single family dwellings. Upon completion of construction, these houses will be sold or leased under a lease purchase agreement until clear title can be transferred to the member family. The following table provides information about significant changes in construction in progress as of June 30, 2023:

	Number of Homes	Balance
Construction in progress, June 30, 2022	8	$ 309,701
Additions to construction in progress	1	436,704
Sales and construction in progress adjustments, net	(1)	(285,350)
Construction in progress, June 30, 2023	8	$ 461,055

During the year ended June 30, 2023, there was one home sold from construction in progress.

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2023:

Land	$ 19,244
Buildings and improvements	204,864
Leasehold improvements	38,631
Furniture and equipment	19,316
Vehicles and transportation equipment	52,546
Right of use financing lease assets	7,698
	342,299
Less: accumulated depreciation	(290,462)
Total property and equipment, net	$ 51,837

Depreciation expense totaled $6,946 for the year ended June 30, 2023.

NOTE 8: TITHE PAYABLE

The Organization is affiliated with HFHI and periodically receives a portion of its cash flow through individual contributions collected by HFHI. These funds are designated for Habitat for Humanity of Greater Newark, Inc. to utilize in their operations.

The Organization contributes a portion of their annual contributions without donor restriction to HFHI for their international housing programs. For the year ended June 30, 2023, tithing expense totaled $24,143. Tithe payable totaled $24,143 as of June 30, 2023 and is included within accounts payable and accrued expenses on the statement of financial position.

NOTE 9: LINE OF CREDIT

On August 8, 2013, the Organization secured a line of credit with a maximum withdrawal of $250,000 which is secured by all business assets. The line of credit is to be used for working capital and general corporate purposes. As of June 30, 2023, a maturity date had not yet been declared. The principal balance will not be required to be paid until a final maturity date is declared. The line of credit bears interest at the prime rate plus an additional one percent. As of June 30, 2023, the interest rate was 9.5%, and the line of credit had an outstanding balance of $193,580.

NOTE 10: CONSTRUCTION LOANS PAYABLE

In order to finance the construction of selected housing units, the Organization was granted a construction loan up to $823,781 in June 2019 to be utilized as work progresses through the completion of such construction. This loan bears interest at 6.75%. As of June 30, 2023, the amount outstanding under this loan totaled $118,734. This loan matured in October 2023 and was extended through January 1, 2024. Subsequent to year-end in January 2024, the loan was increased by $133,887, resulting in a loan up to $957,668. The maturity date was extended to January 1, 2025, and the interest rate was increased to 8% on the same date.

In order to finance the construction of a ReStore, the Organization was granted a construction loan up to $300,000 in April 2020 to be utilized as work progresses through the completion of such construction. This loan was fully paid off during the year ended June 30, 2023.

NOTE 11: NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2023:

The Organization entered into a note payable to HFHI on June 25, 2018 HFHI for the purpose of building future homes. The loan is payable in 40 quarterly installments of $9,958, including interest of 4.25% per annum; final payment due June 30, 2028.	$	185,204
On June 9, 2020, the Organization received an Economic Disaster Injury Loan (EIDL) totaling $150,000 from the U.S. Small Business Administration in response to the COVID-19 pandemic. The loan matures on June 9, 2050 and accrues interest at 2.75%. Payments were scheduled to begin 12 months following the date of the loan. In March 2022, the deferment period was extended to 30 months.		150,000
Total notes payable		335,204
Less: debt service escrow		(1,260)
Less: current portion		(45,469)
Notes payable, net of current	$	288,475

Future minimum principal payments are as follows for the years ending June 30:

2024	$	45,469
2025		37,957
2026		39,537
2027		41,185
2028		42,902
Thereafter		128,154
Total	$	335,204

Subsequent to year-end in May 2024, the Organization paid the Economic Disaster Injury Loan in full.

NOTE 12: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2023 are available for the following purposes:

Purpose Restrictions:	
Sandy Relief Projects	$ 6,524
Comfort Partners Program	97,112
Purchase of vehicle	15,000
West and Central Village Neighborhood Plan	50,000
Critical home repairs	10,000
Time Restrictions:	
Multi-year pledges not yet due	250,000
Total	$ 428,636

NOTE 13: NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

Comfort Partners Program	$ 72,669
Total	$ 72,669

NOTE 14: BOARD DESIGNATED NET ASSETS

The Board of Trustees established a designated fund in which collections from mortgages and loans are deposited for future construction expenses of the Organization. The Organization’s board designated net assets totaled $297,348 as of June 30, 2023.

The Organization has adopted investment and spending policies for board designated assets that attempt to provide a relatively predictable and growing stream of annual distributions in support of the organization while preserving the long-term, real purchasing power of the assets. An additional purpose of the fund is to provide a source of funds for a time when the Organization may face a financial emergency.

NOTE 15: LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets as of June 30, 2023, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

Current financial assets:	
Cash and cash equivalents	$ 1,293,963
Critical repair receivables	66,820
Pledges receivable, current	100,000
Mortgages receivable, current	102,084
Total financial assets	1,562,867
Less amounts not available to be used within one year:	
Net assets with donor restrictions for specified purpose	(178,636)
Net assets with time restrictions	(100,000)
Board-designated net assets	(297,348)
Financial assets available to meet general expenditures over the next twelve months	$ 986,883

The Organization is partially supported by restricted contributions. Because 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 donors. Thus, certain financial assets may not be available for general expenditures within one year.

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has a goal to maintain cash on hand to meet 90 days of normal operating expenses, which are, on average, approximately $749,000. As more fully described in Note 9, the Organization also has a line of credit, which it can draw upon in the event of an unanticipated liquidity need.

NOTE 16: LEASES

The Organization enters into leases in the normal course of business primarily for vehicles, storage units, printers, water coolers and office and program space. The Organization's operating and financing leases have remaining terms of 4-9 and 3-5 years, respectively, some of which include renewal or termination options. The Organization's leases do not include residual value guarantees or covenants.

The Organization includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Organization will exercise the option. In addition, the Organization did not elect to account for any non-lease components in its leases as part of the associated lease component. The Organization has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Organization's statement of financial position.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term.

NOTE 16: LEASES (continued)

The Organization uses the U.S Treasury risk-free rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

Right-of-use assets and lease liabilities by lease type, and the associated statement of financial position classifications, are as follows:

Right-of-use assets:			
	Operating leases	Non-current assets	$ 1,837,493
	Finance leases	Property and equipment, net	7,698
Total right-of-use assets			$ 1,845,191
Lease liabilities:			
	Operating leases	Current liabilities	$ 256,896
	Operating leases	Non-current liabilities	1,737,941
	Finance Leases	Current liabilities	2,711
	Finance Leases	Non-current liabilities	5,209
Total lease liabilities			$ 2,002,757

The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2023:

Weighted Average Remaining Lease Term	
Operating leases	8.70 years
Finance leases	3.18 years
Weighted Average Discount Rate	
Operating leases	2.94%
Finance leases	3.04%

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of June 30, 2023 are as follows:

Year Ending June 30:	Operating	Finance	Total
2024	$ 256,896	$ 2,711	$ 259,607
2025	256,896	2,711	259,607
2026	256,896	2,321	259,217
2027	259,608	371	259,979
2028	242,925	216	243,141
Thereafter	996,748	-	996,748
Total lease payments	2,269,969	8,330	2,278,299
Less: imputed interest	(275,132)	(410)	(275,542)
Present value of lease liabilities	$ 1,994,837	$ 7,920	$ 2,002,757

NOTE 16: LEASES (continued)

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2023:

Lease Cost	Statement of Activity Classification		
Lease expense	Program services	$	281,699
Lease expense	Management and general	$	23,275
Amortization of financing leases	Management and general	$	2,312
Interest expense - financing leases	Management and general	$	405

NOTE 17: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, taxes and employee benefits, professional fees general construction costs, insurance, occupancy, travel/parking, automobile and truck expensed, dues and subscriptions and office supplies. Salaries, taxes and employee benefits and insurance are allocated on the basis of actual time and effort worked in each function. All other expenses are allocated based on costs of actual expenses utilized.

NOTE 18: SPECIAL EVENT REVENUE

Gross receipts from fundraising events recorded by the Organization consist of exchange revenue and contribution revenue. In accordance with FASB ASU 2014-09, the Organization is required to separately present the components of this revenue. See below for approximated contribution and exchange component revenues recorded in accordance with fundraising events held during the fiscal year ended June 30, 2023:

Contributions	$	33,144
Event revenue - exchange component		7,800
Event revenue - gross		40,944
Less - direct expenses		(25,680)
Event revenue, net of direct expenses	$	15,264

NOTE 19: SOURCES AND TIMING OF REVENUE

The following table presents the Organization's revenues and support disaggregated by geography, product lines, and timing of revenue recognition for the year ended June 30, 2023.

Geographic Markets		
New Jersey	$	1,220,252
Product Lines		
Sales to homeowners	$	370,000
ReStore		829,047
Special events		7,800
Amortization of mortgage discount		13,405
Total exchange revenue	$	1,220,252
Timing of Revenue Recognition		
Revenue recognized at a point in time	$	1,220,252
Reconciliation to Statement of Financial Position		
Non-exchange revenue	$	1,447,438
Exchange revenue		1,220,252
Total revenues and support	$	2,667,690

NOTE 20: CONCENTRATIONS

During the year ended June 30, 2023, there was no concentration of total revenues and support from any donors.

NOTE 21: COMMITMENTS AND CONTINGENCIES

Habitat commits to building homes for individuals and obtains corporate or other sponsors who underwrite approximately half of the construction costs associated with building the homes. The Organization is dependent upon its staff and board members' ability to secure funding sources to fulfill future commitments. Habitat serves as a builder while building homes for low to moderate income families. Habitat uses volunteers for constructing the homes and indemnifies its sponsors from liability arising from home construction. Generally, construction companies are subject to uninsured risks resulting from their homebuilding activities.

In the normal course of operations, Habitat is involved with routine litigation matters. Asserted claims are contested vigorously by management. However, the ultimate outcome of these uncertainties is not quantifiable and, accordingly, management does not accrue any estimate of losses it may incur in the future arising from these ongoing issues. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material adverse effect on the Organization's financial position or results of operations.

HABITAT FOR HUMANITY OF GREATER NEWARK, INC.
Schedule of Financial Statement Findings
For the year ended June 30, 2023

This schedule identifies the significant deficiencies related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards.*

Material Weakness:

2023-01 – Formal Close Process

Criteria: Generally accepted accounting principles in the United States of America provides that the design or operation of an internal control structure over financial reporting allows management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. This includes the need for an individual, not directly involved in the preparation of transactions or financial statement amounts, to provide a review of the work performed.

Condition and Context: During our audit procedures, it was determined that certain trial balance and general ledger documentation to support account balances and/or to document evidence of a supervisory review was not available. The financial information for the year ended June 30, 2023 included errors in certain accounts that were the result of ineffective monitoring procedures and closing processes throughout the year and at year-end. These errors caused significant misstatements on both the statement of financial position and the statement of activities, and in certain circumstances resulted in audit adjustments.

Cause: Closing procedures, specifically the monitoring and review of financial information by management, is not being effectively performed.

Effect: The extent of the adjusting journal entries proposed by the auditor and accepted by management was material to the financial statements.

Recommendation: We recommend the Organization implement a formalized closing process on a monthly and annual basis for all financial statement areas. The close process should include an in-depth analysis of all significant accounts, including recording any prior-year auditor journal entries. Significant accounts should have supporting schedules that are prepared and reviewed by separate individuals within the Organization to ensure proper segregation of duties. Furthermore, supporting schedules should agree to the corresponding general ledger accounts. All variances should be resolved timely and before information is provided as audit support. Implementation of these recommendations will improve financial reporting processes and internal controls of the Organization and result in a financial close with minimal adjusting entries at year-end.

Management's Response: A formal year-end closing process has been implemented for FY2024 and a monthly and annual close process will be implemented going forward. Each month the bookkeeper will print out the trial balance and significant account reconciliations will be reviewed as well as bank statement and journal entries. The CFO will sign off on the closing binder monthly to ensure accuracy of our accounts and to resolve any variances found.