

Consolidated financial statements of:

**HAITI OUTREACH AND
HAITI OUTREACH/COLLABORATION AVEC HAITI**

Year ended
December 31, 2022

	Page
Independent auditor's report	1
Consolidated financial statements:	
Consolidated statement of financial position	2
Consolidated statement of activities and changes in net assets	3
Consolidated statement of cash flows	4
Consolidated statement of functional expenses	5
Notes to consolidated financial statements	6-12



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Haiti Outreach and Haiti Outreach/Collaboration
Avec Haiti
Golden Valley, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Haiti Outreach (HO) and Haiti Outreach/Collaboration Avec Haiti (HO/CH), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of HO and HO/CH as of December 31, 2022, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of HO and HO/CH 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.

Prior Period Adjustment

As discussed in Note 8 to the consolidated financial statements, the beginning net asset balance has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 HO and HO/CH'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HO and HO/CH'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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, on January 1, 2022, HO and HO/CH adopted new accounting guidance, Accounting Standards Update No. 2016-02, Leases (Topic 842). As a result of the adoption of the new lease accounting guidance, lease liabilities and right-of-use assets were recorded on the statement of financial position (see Note 3). Our opinion is not modified with respect to this matter.

*Schechter-Dorcken-Kanter
Andrews & Selcer Ltd.*

May 2, 2023

Minneapolis, MN

**HAITI OUTREACH, INC. (HO) AND
HAITI OUTREACH/COLLABORATION AVEC HAITI (HO/CH)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2022

	HO	HO/CH	Consolidated total
Assets:			
Current assets:			
Cash	\$ 234,755	\$ 18,986	\$ 253,741
Contributions receivable	95,540	15,781	111,321
Due (to) from	(14,874)	14,874	-
Total current assets	<u>315,421</u>	<u>49,641</u>	<u>365,062</u>
Property and equipment:			
Land	-	19,500	19,500
Building and leasehold improvements	-	455,000	455,000
Equipment	-	300,000	300,000
Vehicles	-	59,000	59,000
	-	833,500	833,500
Less accumulated depreciation	-	543,552	543,552
	-	289,948	289,948
Right-of-use asset	<u>49,498</u>	-	<u>49,498</u>
Total noncurrent assets	<u>49,498</u>	<u>289,948</u>	<u>339,446</u>
Total assets	<u>\$ 364,919</u>	<u>\$ 339,589</u>	<u>\$ 704,508</u>
Liabilities and net assets:			
Current liabilities:			
Accounts payable	\$ 7,624	\$ -	\$ 7,624
Accrued expenses	3,793	12,660	16,453
Current portion of lease liability	15,957	-	15,957
Total current liabilities	<u>27,374</u>	<u>12,660</u>	<u>40,034</u>
Lease liability, net of current portion	<u>33,575</u>	-	<u>33,575</u>
Total liabilities	<u>60,949</u>	<u>12,660</u>	<u>73,609</u>
Net assets:			
Without donor restrictions	208,430	312,296	520,726
With donor restrictions	95,540	14,633	110,173
Total net assets	<u>303,970</u>	<u>326,929</u>	<u>630,899</u>
Total liabilities and net assets	<u>\$ 364,919</u>	<u>\$ 339,589</u>	<u>\$ 704,508</u>

**HAITI OUTREACH, INC. (HO) AND
HAITI OUTREACH/COLLABORATION AVEC HAITI (HO/CH)**

CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2022

	HO	HO/CH	Consolidating entries	Consolidated total
Changes in net assets without donor restrictions:				
Support and revenues:				
Contributions of cash and other financial assets	\$ 444,596	\$ -	\$ -	\$ 444,596
Grant from HO	-	290,000	(290,000)	-
Well drilling and other program income	82,016	24,994	-	107,010
Guest house income	-	5,974	-	5,974
Other income	142	12	-	154
Foreign currency transaction gains	-	11,784	-	11,784
Special event revenue including contributions	165,029	-	-	165,029
Less costs of direct benefits to donors	(23,007)	-	-	(23,007)
	<u>142,022</u>	<u>-</u>	<u>-</u>	<u>142,022</u>
Net assets released from restrictions	<u>52,120</u>	<u>26,052</u>	<u>-</u>	<u>78,172</u>
 Total support and revenues	<u>720,896</u>	<u>358,816</u>	<u>(290,000)</u>	<u>789,712</u>
 Expenses:				
Program services	531,544	353,240	(290,000)	594,784
Management and general	83,427	44,895	-	128,322
Fundraising	145,610	-	-	145,610
	<u>760,581</u>	<u>398,135</u>	<u>(290,000)</u>	<u>868,716</u>
Changes in net assets without donor restrictions	<u>(39,685)</u>	<u>(39,319)</u>	<u>-</u>	<u>(79,004)</u>
 Change in net assets with donor restrictions:				
Contributions of cash and other financial assets	38,137	-	-	38,137
Well drilling and other program income	-	15,901	-	15,901
Net assets released from restrictions	<u>(52,120)</u>	<u>(26,052)</u>	<u>-</u>	<u>(78,172)</u>
Change in net assets with donor restrictions	<u>(13,983)</u>	<u>(10,151)</u>	<u>-</u>	<u>(24,134)</u>
Change in net assets before translation adjustment	<u>(53,668)</u>	<u>(49,470)</u>	<u>-</u>	<u>(103,138)</u>
Loss on foreign currency translation adjustment	<u>-</u>	<u>(13,899)</u>	<u>-</u>	<u>(13,899)</u>
Change in net assets	<u>(53,668)</u>	<u>(63,369)</u>	<u>-</u>	<u>(117,037)</u>
Net assets, beginning of year, as previously reported	357,638	130,380	-	488,018
Prior period adjustment	<u>-</u>	<u>259,918</u>	<u>-</u>	<u>259,918</u>
Net assets, beginning of year, as restated	357,638	390,298	-	747,936
Net assets, end of year	<u>\$ 303,970</u>	<u>\$ 326,929</u>	<u>\$ -</u>	<u>\$ 630,899</u>

**HAITI OUTREACH, INC. (HO) AND
HAITI OUTREACH/COLLABORATION AVEC HAITI (HO/CH)**

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	HO	HO/CH	Consolidated total
Cash flows from operating activities:			
Change in net assets before translation adjustment	\$ (53,668)	\$ (49,470)	\$ (103,138)
Adjustments to reconcile change in net assets to net cash from operating activities:			-
Amortization of right-of-use asset	1,333	-	1,333
Depreciation	-	34,533	34,533
(Increase) decrease in:			
Contributions receivable	(36,978)	10,717	(26,261)
Due to/from	14,874	(14,874)	-
Increase (decrease) in:			
Accounts payable	4,548	-	4,548
Accrued expenses	604	4,571	5,175
Refundable advance and unearned revenue	(29,199)	-	(29,199)
Lease liability	(1,299)	-	(1,299)
Net cash used in operating activities	<u>(99,785)</u>	<u>(14,523)</u>	<u>(114,308)</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>(13,899)</u>	<u>(13,899)</u>
Change in cash	(99,785)	(28,422)	(128,207)
Cash, beginning	<u>334,540</u>	<u>47,408</u>	<u>381,948</u>
Cash, ending	<u>\$ 234,755</u>	<u>\$ 18,986</u>	<u>\$ 253,741</u>

**HAITI OUTREACH, INC. (HO) AND
HAITI OUTREACH/COLLABORATION AVEC HAITI (HO/CH)**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	HO			HO/CH			Consolidating entries	Consolidated total	
	Program	Management and general	Fundraising	Total	Program	Management and general			Total
Salaries, taxes and benefits	\$ 171,274	\$ 58,916	\$ 99,772	\$ 329,962	\$ 224,475	\$ 39,303	\$ 263,778	\$ -	\$ 593,740
Contractors	21,900	8,596	-	30,496	8,298	-	8,298	-	38,794
Grants to HO/CH	290,000	-	-	290,000	-	-	-	(290,000)	-
Specific program expenses:									
Haiti group trips	986	-	-	986	-	-	-	-	986
Equipment and tools	2,904	-	-	2,904	-	-	-	-	2,904
Parts, repairs and maintenance, and insurance	4,795	-	-	4,795	16,481	-	16,481	-	21,276
Diesel, fuel and gas	-	-	-	-	20,176	-	20,176	-	20,176
Shipping and customs	1,532	-	-	1,532	2,495	-	2,495	-	4,027
Project materials	-	-	-	-	21,899	-	21,899	-	21,899
Travel, airfare and hotels	10,649	1,114	-	11,763	14,636	-	14,636	-	26,399
Guesthouse and meals	-	-	-	-	1,783	-	1,783	-	1,783
Marketing	-	-	20,913	20,913	-	-	-	-	20,913
Office expenses	10,109	6,991	9,159	26,259	1,492	1,859	3,351	-	29,610
Postage and printing	2,059	2,060	6,179	10,298	612	-	612	-	10,910
Rent and lease	8,677	3,248	5,415	17,340	4,014	-	4,014	-	21,354
Telephone and internet	6,659	2,502	4,172	13,333	2,522	280	2,802	-	16,135
Travel, airfare and hotels	-	-	-	-	3,277	-	3,277	-	3,277
Depreciation	-	-	-	-	31,080	3,453	34,533	-	34,533
Direct benefits to donors	-	-	23,007	23,007	-	-	-	-	23,007
Total expenses	531,544	83,427	168,617	783,588	353,240	44,895	398,135	(290,000)	891,723
Less expenses included with revenues on the statement of activities	-	-	(23,007)	(23,007)	-	-	-	-	(23,007)
	<u>\$ 531,544</u>	<u>\$ 83,427</u>	<u>\$ 145,610</u>	<u>\$ 760,581</u>	<u>\$ 353,240</u>	<u>\$ 44,895</u>	<u>\$ 398,135</u>	<u>\$ (290,000)</u>	<u>\$ 868,716</u>

See notes to consolidated financial statements.

1. Nature of business and summary of significant accounting policies:

Nature of business:

Haiti Outreach, Inc. (HO) is a 501(c)(3) nonprofit based in Minnesota that works with communities in Haiti on water, sanitation, hygiene, and education projects that communities initiate, help build and sustain.

Haiti Outreach/Collaboration Avec Haiti (HO/CH) is a Haiti Civil Society Organization based in Pignon, Haiti. It is engaged in community development projects in Haiti to improve the Haitian's quality of life and help them become self-sufficient. HO/CH's primary activities consist of providing freshwater wells in rural Haiti, local water systems in small towns and training Haitian community groups in their management. HO/CH has made four public schools possible. HO/CH also operates a guesthouse for foreign aid workers and Haitian visitors to Pignon.

HO and HO/CH are collectively referred to as the Organizations.

Consolidated financial statements:

The financial statements include the accounts of HO and HO/CH. All significant intra-entity transactions and accounts are eliminated.

Foreign currency translation:

HO/CH conducts the majority of its operations using the Haitian currency, gourdes. For purposes of these financial statements gourde transactions have been translated into U.S. dollars at an average exchange rate of approximately 110 gourdes per one U.S. dollar throughout 2022. These foreign currency transaction gains and losses on revenues and expenses are translated at the average exchange rates during the year and are included in support and revenues in the statement of activities.

All assets and liabilities of the Haitian operations, except for non-monetary assets such as property and equipment, are translated at year-end exchange rates, which were approximately 146 gourdes per one U.S. dollar at December 31, 2022. Translation gains and losses are recorded as a separate component of net assets without donor restrictions within the change in net assets. Non-monetary assets are translated using the historical rate on the date of acquisition.

Concentrations of credit risk arising from cash deposits in excess of insured limits:

HO maintains its deposits in one financial institution located in the Twin Cities where at times the cash balances exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. HO has not experienced any loss associated with the practice.

At December 31, 2022, HO/CH had \$17,524 in cash or deposits in Haitian financial institutions that are not insured by the FDIC.

1. Nature of business and summary of significant accounting policies (continued):

Concentrations of credit risk due to contributions receivable:

Financial instruments that potentially subject the Organizations to concentrations of credit risk consist principally of contributions receivable. At December 31, 2022, 68% of HO's contributions receivable were due from two donors and 93% of HO/CH's contributions receivable were due from one donor, which results in a concentration for the Organizations of 72% from three donors.

Concentration of revenue and support:

The Organizations received approximately 14% of its total revenues and support from one donor in 2022.

Geographic concentration and risks of foreign operations:

The Organizations conducts its operations in Pignon, Haiti, and therefore, is subject to risks from changes in local economic conditions. These operations are subject to risks inherent in operating in a country that is not typically associated with operations in North America. Accordingly, the Organizations' financial condition and activities may be influenced by the political, economic, and legal environments in Haiti. As a result, the activities in Haiti are subject to a variety of risks, including social, political and economic instability, inflation, tariffs and other trade barriers, fluctuations in foreign exchange rates, and unexpected changes in regulatory requirements. During the last 3 months of 2022, fuel was unattainable which greatly slowed operations. Through the date of our report, challenges in obtaining fuel has continued.

Accounts receivable and contributions receivable:

Accounts receivable and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probably 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. As of December 31, 2022, all contributions receivable are collectable and expected to be received within the next year; therefore they are classified in current assets and there is no valuation allowance recorded.

Unconditional promises to give including grants are recognized as contributions in the period received and as assets or decreases of liabilities depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and equipment:

The Organizations capitalize all expenditures for property and equipment in excess of \$2,000. Purchased property and equipment are recorded at cost. Donated property is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of three to thirty years. Replacements, maintenance and repairs, which do not improve or extend the lives of the assets, are expensed as incurred.

1. Nature of business and summary of significant accounting policies (continued):

Net assets:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absences of donor-imposed restrictions. Net assets and changes therein are classified into the following categories:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Net assets with donor restrictions – Net assets subject to donor- (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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both. There were no donor-imposed restrictions that were perpetual in nature as of December 31, 2022.

Revenue and revenue recognition:

The Organizations revenue is made up of contributions of cash and other financial assets, and well drilling and other program income, which includes the sale of parts, grants for well drilling, and administration fees.

The Organizations recognize contributions when cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Grants (including those for well drilling) are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. As of December 31, 2022, there were no conditional contributions noted.

All donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organizations report the support as without donor restrictions. Program service fees are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

HO/CH also operates a guesthouse for foreign aid workers and Haitian visitors to Pignon. Revenue related to the guesthouse is recognized at the time of stay. Sale of parts are recognized as revenue at the point of sale. Administration fees are recognized as the service is performed.

Well drilling and other program income included in both with and without donor restrictions is made up of the following:

	<u>HO</u>	<u>HO/CH</u>	<u>Consolidated</u>
Grants for well drilling	\$ 79,266	\$ 17,508	\$ 96,774
Sale of parts	-	6,143	6,143
Administration fees	<u>2,750</u>	<u>17,244</u>	<u>19,994</u>
Total	<u>\$ 82,016</u>	<u>\$ 40,895</u>	<u>\$ 122,911</u>

1. Nature of business and summary of significant accounting policies (continued):

Contributed services:

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organizations. No amounts have been reflected in the financial statements for donated services.

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

HO has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and contributions by donors are tax deductible. As such, HO is subject to income tax only on net unrelated business income. HO had no unrelated business income in 2022. HO/CH is recognized as a United Nations, Nongovernmental Organization (NGO).

The Organizations have evaluated their potential exposure for uncertain tax positions and management has concluded there are no uncertain tax positions that require adjustment to the consolidated financial statements.

Change in accounting principle:

On January 1, 2022, the Organizations adopted Accounting Standards Update No. 2016-02, Leases (Topic 842) under the modified retrospective transition approach and applied it using the effective date option, as of January 1, 2022. Under this new standard, the Organizations' leases with terms of more than twelve months are required to be recognized as assets and liabilities. The Organizations elected not to reassess at adoption (i) expired or existing to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. The adoption of the new standard resulted in the recording of an office space operating lease as a right of use asset and lease liability on the Organizations' consolidated statement of financial position (see Note 3). The adoption did not result in a significant effect on amounts reported in the consolidated statement of activities for the year ended December 31, 2022.

Leases:

The Organizations determine if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organizations have elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organizations do not report ROU assets and leases liabilities for their short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

1. Nature of business and summary of significant accounting policies (continued):

Use of estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent events:

Management has evaluated for subsequent events through May 2, 2023, the date the financial statements were available for issuance.

2. Liquidity and availability:

The Organizations consider contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. The Organizations consider all expenditures related to their ongoing activities related to their organizational purpose as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year at December 31, 2022 are as follows:

	<u>HO</u>	<u>HO/CH</u>	<u>Consolidated</u>
Financial assets at year-end:			
Cash	\$ 234,755	\$ 18,986	\$ 253,741
Contributions receivable	<u>95,540</u>	<u>15,781</u>	<u>111,321</u>
Total financial assets	<u>330,295</u>	<u>34,767</u>	<u>365,062</u>
Less amounts not available to be used within one year:			
Net assets with donor restrictions	95,540	14,633	110,173
Less net assets restrictions to be met in less than a year	<u>(95,540)</u>	<u>(14,633)</u>	<u>(110,173)</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 330,295</u>	<u>\$ 34,767</u>	<u>\$ 365,062</u>

3. Lease agreement:

HO leases office space under an operating lease, which was amended and commenced in December 2022 and expires in November 2025; therefore the remaining lease term is 2.9 years. Monthly rent escalates from approximately \$1,462 to \$1,530 through the term of the lease, which includes utilities, real estate taxes and insurance. HO is responsible for all maintenance and repairs on leasehold improvements located within the premises.

Effective January 1, 2022, the Organizations adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (Topic 842). As a result of the adoption of the new lease accounting guidance, on December 1, 2022, HO recognized (a) a lease liability of \$50,831, which represents the present value of the remaining lease payments of \$53,856 discounted using HO's risk-free rate at the lease commencement date of 3.97%, and (b) a right-of-use asset of \$50,831. Therefore the \$50,831 is a non-cash investing and financing transaction for 2022. The Organizations have elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organizations have applied the risk-free rate option to the office space lease.

As of December 31, 2022, the Organizations have a right-of-use asset balance of \$49,498 and lease liability balance of \$49,532. For the year ended December 31, 2022, total operating lease costs were \$21,354.

Future maturities of lease liabilities under this operating lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2023	\$ 17,578
2024	17,986
2025	<u>16,830</u>
Total lease payments	52,394
Less present value discount	<u>(2,862)</u>
Present value of lease liabilities	<u>\$ 49,532</u>

4. Net assets with donor restrictions:

The Organizations' net assets with donor restrictions of \$110,173 as of December 31, 2022 are time restricted and will be released upon receipt.

5. Employee benefit plan:

HO established a tax-sheltered SIMPLE IRA retirement plan in 2020. The plan is offered to all full-time employees who are expected to make \$5,000 or more in a calendar year. HO makes a matching contribution to the plan each year equal to 3% of all participants' compensation. HO made contributions of \$8,202 in 2022.

6. Intra-entity transactions:

HO annually grants to HO/CH amounts required to complete the program activities in Haiti as agreed to and developed by both Organizations. The amounts granted were \$290,000 in 2022 and are eliminated in the consolidated totals of the financial statements.

At times HO receives funds on behalf of HO/CH and these are included in due to/from at December 31, 2022.

7. Prior period adjustment:

The Organizations' financial statements as of December 31, 2021 understated property and equipment related to HO/CH by \$259,918. The Organizations' net assets as of January 1, 2022 has been increased by \$259,918 to correct the aggregate effect of the error.

	<u>Consolidated</u>
Net assets at beginning of year, as previously reported	\$ 488,018
Prior period adjustment	<u>259,918</u>
Net assets at beginning of year, as restated	<u>\$ 747,936</u>