

**HABITAT FOR HUMANITY FOR RHODE ISLAND,
SOUTH COUNTY, INC.**

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2023 AND 2022**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Habitat for Humanity for Rhode Island,
South County, Inc.
Charlestown, Rhode Island

Opinion

We have audited the accompanying financial statements of Habitat for Humanity for Rhode Island, South County, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 for Rhode Island, South County, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its 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 the Organization 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization changed its method of accounting for leases due to the adoption of Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this 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 for Rhode Island, South 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 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 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 the Organization'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 the Organization'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.

Hoyt, Filippetti & Malashan, LLC

Westerly, Rhode Island
November 28, 2023

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	\$ 785,382	\$ 950,431
Restricted cash	141,311	129,064
Investments	5,758	5,491
Pledges receivable	45,712	200
Other receivables	8,023	11,749
Completed homes available for sale	390,701	-
Construction in progress - homes for sale	537,960	196,287
Prepaid expenses	11,312	16,002
Current portion of operating lease, right-of-use asset	15,299	15,146
Total current assets	1,941,458	1,324,370
 PROPERTY AND EQUIPMENT, net	 663,476	 660,696
 OTHER ASSETS		
Land leased to homeowners	2,244,428	2,244,428
Property held for development	272,422	272,422
Beneficial interest in assets held by community foundation	92,309	85,043
Operating lease, right-of-use asset, net	21,936	37,236
Total other assets	2,631,095	2,639,129
Total assets	\$ 5,236,029	\$ 4,624,195
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 11,719	\$ 11,150
Current portion of operating lease liability	15,299	15,146
Accounts payable and accrued expenses	54,757	60,119
Escrow funds payable	141,311	129,064
Notes payable	267,000	267,000
Total current liabilities	490,086	482,479
 OTHER LIABILITIES		
Long-term debt, net	70,092	82,587
Operating lease liability, net of current portion	21,936	37,236
Total other liabilities	92,028	119,823
 NET ASSETS		
Without donor restrictions		
Invested in land, building and equipment	3,059,410	3,056,630
General operating purposes	1,250,032	653,002
Total net assets without donor restrictions	4,309,442	3,709,632
With donor restrictions	344,473	312,261
Total net assets	4,653,915	4,021,893
Total liabilities and net assets	\$ 5,236,029	\$ 4,624,195

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

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT						
Contributions of cash and other financial assets	\$ 378,275	\$ 137,280	\$ 515,555	\$ 225,873	\$ 129,280	\$ 355,153
Contributions of non-financial assets	66,883	-	66,883	39,672	-	39,672
Government grants	100,000	269,591	369,591	109,542	102,344	211,886
Total support	<u>545,158</u>	<u>406,871</u>	<u>952,029</u>	<u>375,087</u>	<u>231,624</u>	<u>606,711</u>
REVENUE						
Land lease income and other	28,370	-	28,370	27,812	-	27,812
Loss on home sales	-	-	-	(115,707)	-	(115,707)
ReStore and merchandise sales	593,790	-	593,790	525,285	-	525,285
Interest and dividends	4,393	-	4,393	117	-	117
Unrealized gains on investments	245	-	245	77	-	77
Loss on sale of property and equipment	(210)	-	(210)	-	-	-
Miscellaneous income	3,106	-	3,106	5,165	-	5,165
Total revenue	<u>629,694</u>	<u>-</u>	<u>629,694</u>	<u>442,749</u>	<u>-</u>	<u>442,749</u>
Net assets released from restrictions	<u>381,425</u>	<u>(381,425)</u>	<u>-</u>	<u>249,997</u>	<u>(249,997)</u>	<u>-</u>
Total support and revenue	<u>1,556,277</u>	<u>25,446</u>	<u>1,581,723</u>	<u>1,067,833</u>	<u>(18,373)</u>	<u>1,049,460</u>
EXPENSES						
Program services						
Home construction and repairs	534,435	-	534,435	493,337	-	493,337
ReStore	282,134	-	282,134	289,735	-	289,735
Supporting services						
General and administrative	72,069	-	72,069	72,406	-	72,406
Fundraising	67,829	-	67,829	15,707	-	15,707
Total expenses	<u>956,467</u>	<u>-</u>	<u>956,467</u>	<u>871,185</u>	<u>-</u>	<u>871,185</u>
Change in net assets from operating activities	599,810	25,446	625,256	196,648	(18,373)	178,275
NON-OPERATING ACTIVITIES						
Change in value of beneficial interest in assets held by a community foundation	-	6,766	6,766	-	(5,841)	(5,841)
Change in net assets from non-operating activities	<u>-</u>	<u>6,766</u>	<u>6,766</u>	<u>-</u>	<u>(5,841)</u>	<u>(5,841)</u>
Change in net assets	599,810	32,212	632,022	196,648	(24,214)	172,434
NET ASSETS, beginning of the year	<u>3,709,632</u>	<u>312,261</u>	<u>4,021,893</u>	<u>3,512,984</u>	<u>336,475</u>	<u>3,849,459</u>
NET ASSETS, end of the year	<u>\$ 4,309,442</u>	<u>\$ 344,473</u>	<u>\$ 4,653,915</u>	<u>\$ 3,709,632</u>	<u>\$ 312,261</u>	<u>\$ 4,021,893</u>

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

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023**

	Program Services			Supporting Services			Total
	Home Construction and Repairs	ReStore	Total	General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 290,428	\$ 135,212	\$ 425,640	\$ 22,059	\$ 39,955	\$ 62,014	\$ 487,654
Payroll taxes	24,283	11,306	35,589	1,844	3,341	5,185	40,774
Employee benefits	50,142	23,344	73,486	3,808	6,898	10,706	84,192
Workers compensation	7,397	3,444	10,841	562	1,018	1,580	12,421
Repairs and maintenance	24,953	16,307	41,260	8,950	-	8,950	50,210
Insurance	37,419	2,103	39,522	1,530	-	1,530	41,052
Travel and vehicle expense	3,742	26,599	30,341	-	-	-	30,341
Depreciation	13,375	10,463	23,838	3,575	-	3,575	27,413
Fundraising and publicity	-	13,181	13,181	-	13,528	13,528	26,709
Professional fees	2,188	1,018	3,206	17,666	301	17,967	21,173
Utilities	5,104	12,896	18,000	1,612	-	1,612	19,612
Home construction costs	16,361	-	16,361	-	-	-	16,361
Storage	15,950	-	15,950	-	-	-	15,950
Office and supplies expense	-	4,079	4,079	7,247	2,788	10,035	14,114
National affiliate contribution	12,500	-	12,500	-	-	-	12,500
Bank service charges	-	12,217	12,217	40	-	40	12,257
Volunteer and program expense	8,863	2,061	10,924	-	-	-	10,924
Property taxes	5,518	3,515	9,033	-	-	-	9,033
Meeting and committee expense	6,280	-	6,280	365	-	365	6,645
Telephone	549	4,389	4,938	549	-	549	5,487
Interest	4,992	-	4,992	-	-	-	4,992
Dues and subscriptions	3,944	-	3,944	-	-	-	3,944
Postage and freight	-	-	-	1,575	-	1,575	1,575
Miscellaneous	-	-	-	687	-	687	687
Training expense	447	-	447	-	-	-	447
Total	<u>\$ 534,435</u>	<u>\$ 282,134</u>	<u>\$ 816,569</u>	<u>\$ 72,069</u>	<u>\$ 67,829</u>	<u>\$ 139,898</u>	<u>\$ 956,467</u>

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

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022**

	Program Services			Supporting Services			Total
	Home Construction and Repairs	ReStore	Total	General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 301,549	\$ 145,276	\$ 446,825	\$ 24,695	\$ 5,516	\$ 30,211	\$ 477,036
Payroll taxes	24,546	11,825	36,371	2,010	449	2,459	38,830
Employee benefits	49,657	23,923	73,580	4,067	908	4,975	78,555
Workers compensation	5,631	2,713	8,344	461	103	564	8,908
Insurance	26,025	3,047	29,072	1,045	-	1,045	30,117
Fundraising and publicity	-	21,271	21,271	-	6,944	6,944	28,215
Repairs and maintenance	2,218	15,095	17,313	8,850	-	8,850	26,163
Depreciation	10,595	10,463	21,058	1,686	-	1,686	22,744
Travel and vehicle expense	3,392	19,099	22,491	-	-	-	22,491
Professional fees	2,476	1,144	3,620	17,195	43	17,238	20,858
National affiliate contribution	20,000	-	20,000	-	-	-	20,000
Utilities	4,394	11,308	15,702	1,414	-	1,414	17,116
Office and supplies expense	-	3,549	3,549	8,096	1,744	9,840	13,389
Bank service charges	-	12,652	12,652	183	-	183	12,835
Storage	10,500	-	10,500	-	-	-	10,500
Property taxes	4,618	3,513	8,131	-	-	-	8,131
Meeting and committee expense	7,794	-	7,794	26	-	26	7,820
Home construction costs	7,239	-	7,239	-	-	-	7,239
Volunteer and program expense	5,536	675	6,211	-	-	-	6,211
Interest	4,805	-	4,805	-	-	-	4,805
Telephone	523	4,182	4,705	523	-	523	5,228
Dues and subscriptions	1,591	-	1,591	-	-	-	1,591
Postage and freight	-	-	-	1,462	-	1,462	1,462
Miscellaneous	-	-	-	693	-	693	693
Training expense	248	-	248	-	-	-	248
Total	\$ 493,337	\$ 289,735	\$ 783,072	\$ 72,406	\$ 15,707	\$ 88,113	\$ 871,185

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

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 632,022	\$ 172,434
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Net unrealized gains on investments	(245)	(77)
Loss on sale of property and equipment	210	-
Amortization of financing costs included in interest expense	121	121
Amortization of operating lease right-of-use asset	15,147	14,995
Change in value of beneficial interest in assets held by community foundation	(6,766)	5,841
Loan forgiveness	-	(90,140)
Depreciation	27,413	22,744
Changes in operating assets and liabilities		
Construction in progress - homes for sale	(732,374)	138,910
Completed homes available for sale	-	3,430
Pledges receivable	(45,512)	3,592
Other receivables	3,726	(5,456)
Prepaid expenses	4,690	(849)
Accounts payable and accrued expenses	(5,362)	17,787
Escrow funds payable	12,247	33,381
Operating lease liability	(15,147)	(14,995)
Net cash (used in) provided by operating activities	<u>(109,830)</u>	<u>301,718</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to beneficial interest in assets held by community foundation	(500)	(775)
Proceeds from sale of property and equipment	3,500	-
Purchases of property and equipment	(33,903)	(15,869)
Purchases of investments	(22)	(117)
Net cash used in investing activities	<u>(30,925)</u>	<u>(16,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	(12,047)	(9,683)
Net cash used in financing activities	<u>(12,047)</u>	<u>(9,683)</u>
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(152,802)	275,274
CASH AND RESTRICTED CASH, beginning of the year	<u>1,079,495</u>	<u>804,221</u>
CASH AND RESTRICTED CASH, end of the year	<u>\$ 926,693</u>	<u>\$ 1,079,495</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest	\$ 4,871	\$ 4,684
Completed homes reclassified to available for sale	\$ 390,701	\$ -
Completed homes reclassified to available for rent	\$ -	\$ 131,186
Payment of note payable from proceeds of home sale	\$ -	\$ 101,479
NON-CASH TRANSACTIONS		
Operating right-of-use asset obtained in exchange for new operating lease liabilities	\$ -	\$ 67,377
CASH AND RESTRICTED CASH:		
Cash	\$ 785,382	\$ 950,431
Restricted cash	141,311	129,064
	<u>\$ 926,693</u>	<u>\$ 1,079,495</u>

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

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Habitat for Humanity for Rhode Island, South County, Inc. (the Organization) is a nonprofit corporation organized in 1990 under the General Laws of the State of Rhode Island. The Organization's mission is to contribute to the elimination of substandard housing by creating decent homes in partnership with people in need. The Organization sponsors specific projects in habitat development within the South County area of Rhode Island.

The Organization's program services include home construction, rehab and homeowner assistance programs. In addition, the Organization operates a retail thrift store (d/b/a the ReStore). The ReStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. All net proceeds from the operation of the ReStore help support and enhance the Organization's non-profit mission-related activities.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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 reported period. Actual results could differ from those estimates.

APPLICATION OF ACCOUNTING STANDARDS

The Organization adopted ASC 842 for Leases as of July 1, 2021. The two permitted transition methods under the guidance are the modified retrospective transition approach, which requires application of the guidance for all comparative periods, and the cumulative effect adjustment approach, which requires prospective application from the adoption date. The Organization adopted ASC 842 using the modified retrospective transition approach. The Organization chose not to elect the package of practical expedients permitted under the transition guidance within Topic 842, which would have allowed the Organization to carry forward the historical lease classification, retain the initial direct costs for any leases that existed prior to the adoption of the standard and not reassess whether any contracts entered into prior to the adoption are leases. The Organization also did not elect the hindsight practical expedient to reassess the lease term for the Organization's lease.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSET CATEGORIES

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Organization, the accounts of the Organization are maintained in two net asset classes as follows:

Without Donor Restrictions

Net assets without donor restrictions represent funds over which the Board of Directors retains full control in achieving any of the Organization's institutional purposes. Included in net assets without donor restrictions are grants, which are earmarked by the Board of Directors for specific purposes.

With Donor Restrictions

Net assets with donor restrictions represent funds restricted by outside sources which may only be utilized in accordance with purpose or time restrictions established by the donor of such funds.

See *Note 12* for more detail on the Organization's net assets with donor restrictions.

LEASES

The Organization determines if an arrangement is a lease at inception and if so, determines whether the lease is classified as operating or finance. The Organization currently has one operating lease. By policy, the Organization's operating lease is included in operating lease right-of-use assets and operating lease liabilities in the balance sheet. ROU assets represent the right to use an underlying asset for the lease term and lease liability represent the obligation to make lease payments arising from the lease. ROU assets are calculated and recognized at lease commencement date based on the present value of lease payments over the lease term adjusted for any lease payments paid to the lessor at or before the commencement date and initial direct costs incurred by the Organization and excludes any lease incentive received from the lessor. The lease term may include an option to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option as of the commencement date of the lease and is reviewed in subsequent periods if a triggering event occurs.

Lease expense for operating lease of a vehicle is recorded within the travel and vehicle expense line item of the statement of functional expenses.

Lease income for operating leases is recorded within land lease income and other revenue line item of the statement of activities.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

REVENUE AND REVENUE RECOGNITION

The Organization uses the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

Contributions

Contributions are defined as voluntary, nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. The Organization recognizes contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received whose use is contingent on the occurrence of a future event are presented as deferred support until such conditions are substantially met, at which time they are recognized as support.

Contributed Nonfinancial Assets

Contributed services are required to be recorded in the accompanying financial statements at their estimated fair value at the time such services are provided to the extent that they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Organization.

Many individuals volunteer their time to the Organization's program services and other activities. The value of these services has not been recognized in the accompanying financial statements, as it does not create or enhance nonfinancial assets or require specialized skills, which if not provided by donation, would have to be purchased by the Organization.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions in full when the donated or acquired long-lived assets are placed in service.

See *Note 14* for more deferral on the Organization's contributed nonfinancial assets.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE AND REVENUE RECOGNITION *(Continued)*

Grants and Contracts

Grants and contracts are generally characterized as exchange transactions in which the grantor or contractor requires the performance of specific activities.

Entitlement or cost reimbursement grants and contracts are based on the expenditure of funds in accordance with grant restrictions. Therefore, revenue is recognized to the extent of grant expenditures. For performance-based grants and contracts, revenue is recognized and presented deferred grant revenue.

ReStore

ReStore sales are attributable to the sale of donated non-monetary items. Substantially all of the items sold in the ReStore are donated to the Organization. Given the uncertainty in valuing these non-monetary donations, the Organization recognizes revenue throughout the course of the year as items are sold.

The Organization does not recognize or record the fair market value of donated items to the ReStore at the time of donation as there is no objective measurement basis for determining fair value. The Organization recognizes and records the value of donated items when they are sold. Such sales are reported as ReStore and merchandise sales on the Statement of Activities.

Home Sales

Revenue from the sale of newly constructed and rehabilitated homes is recognized at closing when title passes to the buyer.

Land Lease and Other

In connection with the sale of certain affordable homes noted above, the Organization retains ownership of the underlying land which is leased to the homeowners. In addition, certain properties are held for lease prior to sale or in accordance with donor restrictions. Such leases are on an annual basis and the income is recognized monthly.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements of the Organization report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation which is allocated based on the area in which the underlying assets are used. Payroll, payroll taxes and related service fees, employee benefits, insurance, workers compensation are allocated based on activity and time spent by the organization's personnel. Utilities, telephone, and depreciation are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization defines cash equivalents as liquid investments with an original maturity of three months or less. As of June 30, 2023 and 2022 the Organization did not have any cash equivalents.

RESTRICTED CASH

Restricted cash is comprised of cash escrow funds received from homeowners that are held in a separate bank account for homeowner association fees and maintenance. As of June 30, 2023 and 2022, these funds totaled \$141,311 and \$129,064, respectively. A corresponding liability is included in the accompanying statements of financial position.

CONSTRUCTION IN PROGRESS – HOMES FOR SALE

Construction in progress represents costs incurred on uncompleted construction projects as of the date of the financial statements.

COMPLETED HOMES AVAILABLE FOR SALE

This amounts represents the building cost of homes that have been completed and that are currently held for sale by the Organization to qualified applicants.

PROPERTY HELD IN PERPETUITY

In March 1999, the Town of South Kingstown transferred property to the Organization for \$1 under the condition that the property be renovated and used to provide tenancy for a developmentally disabled person or persons in perpetuity.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

Property and equipment acquisitions and leasehold improvements are recorded at cost, if purchased, or fair market value, if donated. Depreciation is provided over the estimated useful lives of property and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25-40	years
Vehicles	5	years
Tools and equipment	5	years

Repairs and maintenance are charged to expense as incurred. Expenditures which substantially increase the useful life of the related assets are capitalized. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected as a change in unrestricted net assets.

PROPERTY HELD FOR DEVELOPMENT/LAND LEASED TO HOMEOWNERS

Property held for development consists of all property either donated or purchased by the Organization to be used for new construction of housing.

Land leased to homeowners is the value of land either donated or purchased by the Organization that has been developed and the home has been sold to a qualified homeowner.

Donated property is recorded a fair market value as determined by an appraisal at the date of the donation. Purchased property is recorded at cost.

PLEDGES RECEIVABLE

Unconditional pledges receivable are recognized as revenues in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Provisions for uncollectible receivables are offset against contributions when determined to be uncollectible by management. It is the opinion of management that the expense computed under this method is not materially different than what the expense would be if an allowance method was used. There were no pledges receivable written off during the each of the years ended June 30, 2023 and 2022.

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expense was \$13,181 and \$21,271 for the years ended June 30, 2023 and 2022, respectively and are included in fundraising and publicity on the statements of functional expenses.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to Federal income tax. The Organization had no unrelated business income for the years ended June 30, 2023 and 2022. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Organization did not recognize any liability for uncertain tax positions as defined by accounting principles generally accepted in the United States of America.

The Organization's tax returns for the year ended June 30, 2023 and 2022 are subject to examination by the IRS, generally for three years after they have been filed.

SUBSEQUENT EVENTS

The Organization has performed an evaluation of subsequent events through November 28, 2023, which is the date the financial statements were available to be issued. Subsequent events are discussed in *Note 16*.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, restricted cash, investments, pledges receivable, other receivables and the beneficial interest in funds held by a community foundation.

Cash and Restricted Cash

The Organization places its cash and restricted cash in high quality financial institutions. From time to time, the Organization maintains deposits in excess of FDIC insurance limits. Management believes this to be a normal business risk.

Investments

The Organization invests in a professionally managed portfolio. Management considers investments to be sufficiently diversified to minimize individual investment and industry concentration risks. However, investments are subject to risk of the securities market as a whole.

Pledges Receivable

Pledges receivable consist of amounts due from donors for multi-year pledges. Management reviews outstanding pledges annually and records a provision for uncollectible pledges as needed. Management believes they represent minimal credit risk.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 - CONCENTRATIONS OF CREDIT RISK (Continued)

Other Receivables

Other receivables consist primarily of store credits donated by a company to be used for the purchase of building supplies and materials used by the Organization. Management believes they represent minimal credit risk.

Beneficial Interest in Funds Held by a Community Foundation

Assets, including investments held by a community foundation in which the Organization has a beneficial interest, are subject to the risks of the securities markets as a whole.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the statement of financial position available for general use within one year of the statement of financial position:

	<u>2023</u>	<u>2022</u>
Financial assets, at year-end		
Cash	\$ 785,382	\$ 950,431
Restricted cash	141,311	129,064
Investments	5,758	5,491
Pledges receivable	45,712	200
Other receivables	8,023	11,749
Total financial assets, at year end	<u>986,186</u>	<u>1,096,935</u>
Less: those unavailable for general use due to:		
Escrow funds payable	(141,311)	(129,064)
Donor imposed restrictions	(85,536)	(106,302)
Time restriction	<u>(45,712)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 713,627</u>	<u>\$ 861,569</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due

In addition to the above, the Organization has a line of credit with a local bank in the amount of \$200,000 to help ensure and manage any unanticipated liquidity needs.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 4 - FAIR VALUE MEASUREMENT

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2

Inputs to the valuation method include: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In determining fair value, the Organization utilizes valuation methodologies that maximize the use of observable inputs to the extent possible.

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

U.S. Equities

U.S. Equities are valued at the quoted prices of shares held by the Organization at year end.

Beneficial Interest in Assets Held by a Community Foundation

Beneficial interests in assets held by a community foundation are measured at the fair value of the underlying investment assets.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis on June 30, 2023 and 2022.

Description	Fair Value	Assets (Level 1)	Assets (Level 2)	Assets (Level 3)
2023				
Investments				
Cash	\$ 68	\$ 68	\$ -	\$ -
U.S. equities	5,690	5,690	-	-
	<u>5,758</u>	<u>5,758</u>	-	-
Beneficial interest in assets held by a community foundation	<u>92,309</u>	<u>-</u>	<u>-</u>	<u>92,309</u>
	<u>\$ 98,067</u>	<u>\$ 5,758</u>	<u>\$ -</u>	<u>\$ 92,309</u>
2022				
Investments				
Cash	\$ 45	\$ 45	\$ -	\$ -
U.S. equities	5,446	5,446	-	-
	<u>5,491</u>	<u>5,491</u>	-	-
Beneficial interest in assets held by a community foundation	<u>85,043</u>	<u>-</u>	<u>-</u>	<u>85,043</u>
	<u>\$ 90,534</u>	<u>\$ 5,491</u>	<u>\$ -</u>	<u>\$ 85,043</u>

Changes in the value of Level 3 assets for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Fair value, beginning of the year	\$ 85,043	\$ 90,109
Contributions received	500	775
Increase (decrease) in value of beneficial interests	<u>6,766</u>	<u>(5,841)</u>
Fair value, end of the year	<u>\$ 92,309</u>	<u>\$ 85,043</u>

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2023 and 2022, the components of property and equipment are as follows:

	2023	2022
Buildings	\$ 487,288	\$ 487,288
Property available for rent	349,698	340,796
Vehicles	36,565	36,103
Land	37,500	37,500
Fixtures and equipment	37,977	37,977
	949,028	939,664
Less accumulated depreciation	285,552	278,968
	\$ 663,476	\$ 660,696

Depreciation expense for the years ended June 30, 2023 and 2022 was \$27,413 and \$22,744, respectively.

NOTE 6 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Organization is the beneficiary of the earnings from two funds maintained by the Rhode Island Foundation. The Organization did not receive distributions from such funds during the years ended June 30, 2023 and 2022.

NOTE 7 - LONG-TERM DEBT

The Organization is obligated under a mortgage payable to a bank, bearing interest at 4.98% at June 30, 2020. The mortgage requires monthly principal and interest payments of \$1,299 through August 2029. The mortgage is collateralized by certain real estate owned by the Organization. Long-term debt as of June 30, 2023 and 2022 is presented net of unamortized financing costs of \$433 and \$554, respectively.

As of June 30, 2023, annual maturities of the mortgage payable are as follows:

Year ending June 30:	
2024	\$ 11,719
2025	12,316
2026	12,943
2027	13,603
2028	14,296
2029 and thereafter	17,367
Total	\$ 82,244

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 7 - LONG-TERM DEBT (Continued)

Interest expense for the years ended June 30, 2023 and 2022 consists of the following:

	2023	2022
Interest expense	\$ 4,871	\$ 4,684
Amortization of financing costs	121	121
	\$ 4,992	\$ 4,805

NOTE 8 - FORGIVABLE NOTES PAYABLE

In January 2021, the Organization entered into a loan agreement with a bank under the second funding phase of the Small Business Administration’s Paycheck Protection Program (PPP) for \$90,140. Such loan bore interest at 1% and was due in full no later than January 2026. Under the terms of the Paycheck Protection Program, such loan was forgiven in August 2021 and is included in government grant income on the statement of activities for the year ended June 30, 2022.

NOTE 9 - NOTES PAYABLE

In connection with the buyback of properties previously sold through the affordable housing program, the Organization is obligated to pay Rhode Island Housing \$267,000 as of June 30, 2023 and 2022, upon the resale of the properties to qualified applicants. Such amounts are non-interest bearing and represent the outstanding mortgage balance guaranteed by RI Housing at the time of buyback.

NOTE 10 - LINE OF CREDIT

The Organization has an unsecured demand revolving line of credit agreement with a bank which allows for maximum borrowings of \$200,000. Interest is payable monthly at 1% above the bank’s prime rate with a floor of 3.25%. The bank’s prime rate at June 30, 2023 was 8.50%. As of June 30, 2023 and 2022, no amounts were outstanding under the agreement.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 11 - LEASES

The Organization has one operating lease for a vehicle.

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 67,377	\$ 67,377
Less: accumulated amortization	<u>(30,142)</u>	<u>(14,995)</u>
Net carrying balance	<u>\$ 37,235</u>	<u>\$ 52,382</u>

The Organization's lease cost recognized in the statement of activities consists of the following:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in measurement of lease obligations:		
Operating cash flows from operating leases	\$ 15,588	\$ 15,588
Weighted-average remaining lease term in years - operating leases	2.5	3.5
Weighted-average discount rate - operating leases	1.00%	1.00%

As of June 30, 2023, future minimum lease payments are as follows:

Year ended June 30:	
2024	\$ 15,588
2025	15,588
2026	<u>6,495</u>
Total undiscounted cash flows	37,671
Less: present value discount	<u>(436)</u>
	<u>\$ 37,235</u>

Lease liabilities are reported on the balance sheet as of June 30, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Current portion of operating lease liability	\$ 15,299	\$ 15,146
Operating lease liability, net of current portion	<u>21,936</u>	<u>37,236</u>
	<u>\$ 37,235</u>	<u>\$ 52,382</u>

Lease expense for the years ended June 30, 2023 and 2022 was \$15,147 and \$14,995.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 11 - LEASES (Continued)

The Organization, as lessor, leases certain properties under annual lease agreements.

Lease income for the years ended June 30, 2023 and 2022 consisted of the following:

	2023	2022
Land leases	\$ 15,396	\$ 14,388
Properties available for rent	12,974	13,424
	\$ 28,370	\$ 27,812

NOTE 12 - NET ASSETS

NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023 and 2022, the Organization has net assets with donor restrictions available for the following purposes:

	2023	2022
Time restrictions:		
Beneficial interest in a community foundation	\$ 92,309	\$ 85,043
Bequests	45,712	-
Real estate held in perpetuity	120,916	120,916
Purpose restrictions:		
Home construction	23,360	43,126
Housing education	41,984	42,984
Donor development	9,682	9,682
Home repairs	7,638	7,638
Youth advocacy	2,500	2,500
Volunteer management system	372	372
Total	\$ 344,473	\$ 312,261

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
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NOTE 12 - NET ASSETS (Continued)

NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, the passage of time or by occurrence of events specified by donors. The amounts released during the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Purpose restrictions:		
Home construction	\$ 358,699	\$ 194,838
Volunteer coordinator	21,726	34,355
Homebuyer education	1,000	849
Tool purchases	-	12,455
Roof replacement	-	6,100
AED	-	1,400
Total net assets released	<u>\$ 381,425</u>	<u>\$ 249,997</u>

NOTE 13 - DISAGGREGATION OF REVENUE

The following table disaggregates the Organization's support and revenue for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue from contracts with customers		
Satisfied over time		
Land lease income and other	\$ 28,370	\$ 27,812
Satisfied at a point in time		
ReStore and merchandise sales	593,790	525,285
Loss on home sales	-	(115,707)
Other support and revenue		
Contributions and grants	582,438	394,825
Government grants	369,591	211,886
Investment income	4,638	194
Loss on sale of property and equipment	(210)	-
Miscellaneous income	3,106	5,165
	<u>\$ 1,581,723</u>	<u>\$ 1,049,460</u>

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 14 - CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the statement.

	<u>2023</u>	<u>2022</u>
Support		
Building materials	\$ 49,875	\$ 14,519
Scrap metal	3,174	4,337
Services	13,834	20,816
	<u>66,883</u>	<u>39,672</u>
Revenue		
Restore merchandise	593,790	525,285
	<u>\$ 660,673</u>	<u>\$ 564,957</u>

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed building materials were utilized in the Organizations home construction and repairs program.

It is the Organizations policy to sell all scrap metal for salvage. Scrap metal is valued at the actual cash proceeds received.

Contributed services recognized comprise professional services for advertising and contractors working on various construction projects. Contributed services are valued and reported at the estimated fair value in the financial statements based on current rates for similar services.

Contributed Restore merchandise consists of construction materials and household items donated for sale in the Restore. The Organization recognized and records the value of such donated items when they are sold.

NOTE 15 - EMPLOYEE BENEFIT PLANS

The Organization has a Simple Retirement Plan eligible to all qualifying employees. The Organization contributed a matching contribution up to 4% of salary for the years ended June 30, 2023 and 2022.

For the years ended June 30, 2023 and 2022, the employer contribution was \$12,088 and \$11,098, respectively.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 16 - SUBSEQUENT EVENTS

In September 2023, the Organization received an award of \$895,000. The award was directly used for the purchase of eleven parcels of land in Westerly, Rhode Island. The Organization plans to develop this land for twenty-two homes.