

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

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2022 AND 2021**

**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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity for Rhode Island, South County, Inc. as of June 30, 2022 and 2021, 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.

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 & Malaghan, LLC

Westerly, Rhode Island
November 22, 2022

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021**

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 950,431	\$ 708,538
Restricted cash	129,064	95,683
Investments	5,491	5,297
Pledges receivable	200	3,792
Other receivables	11,749	6,293
Completed homes available for sale	-	104,909
Construction in progress	196,287	466,383
Prepaid expenses	16,002	15,153
Total current assets	1,309,224	1,406,048
 PROPERTY AND EQUIPMENT, net	 660,696	 536,385
 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	85,043	90,109
Total other assets	2,601,893	2,606,959
 Total assets	 \$ 4,571,813	 \$ 4,549,392
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 11,150	\$ 9,746
Accounts payable and accrued expenses	60,119	42,332
Escrow funds payable	129,064	95,683
Notes payable	267,000	368,479
Total current liabilities	467,333	516,240
 FORGIVABLE NOTES PAYABLE	 -	 90,140
 LONG-TERM DEBT, net	 82,587	 93,553
 NET ASSETS		
Without donor restrictions		
Invested in land, building and equipment	3,056,630	2,932,319
General operating purposes	653,002	580,665
Total net assets without donor restrictions	3,709,632	3,512,984
With donor restrictions	312,261	336,475
Total net assets	4,021,893	3,849,459
 Total liabilities and net assets	 \$ 4,571,813	 \$ 4,549,392

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, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT						
Contributions	\$ 265,545	\$ 129,280	\$ 394,825	\$ 338,860	\$ 60,995	\$ 399,855
Government grants	109,542	102,344	211,886	113,195	51,656	164,851
Fundraising events	-	-	-	9,554	-	9,554
Less: cost of direct benefit to donors	-	-	-	(93)	-	(93)
Net revenue from fundraising events	-	-	-	9,461	-	9,461
Total support	<u>375,087</u>	<u>231,624</u>	<u>606,711</u>	<u>461,516</u>	<u>112,651</u>	<u>574,167</u>
REVENUE						
Land lease income and other	27,812	-	27,812	28,652	-	28,652
Loss on home sales	(115,707)	-	(115,707)	(49,949)	-	(49,949)
ReStore and merchandise sales	525,285	-	525,285	443,793	-	443,793
Interest and dividends	117	-	117	335	-	335
Unrealized gains on investments	77	-	77	907	-	907
Miscellaneous income	5,165	-	5,165	28	-	28
Total revenue	<u>442,749</u>	<u>-</u>	<u>442,749</u>	<u>423,766</u>	<u>-</u>	<u>423,766</u>
Net assets released from restrictions	249,997	(249,997)	-	64,965	(64,965)	-
Total support and revenue	<u>1,067,833</u>	<u>(18,373)</u>	<u>1,049,460</u>	<u>950,247</u>	<u>47,686</u>	<u>997,933</u>
EXPENSES						
Program services						
Home construction and repairs	493,337	-	493,337	407,421	-	407,421
ReStore	289,735	-	289,735	265,453	-	265,453
Supporting services						
General and administrative	72,406	-	72,406	82,652	-	82,652
Fundraising	15,707	-	15,707	14,488	-	14,488
Total expenses	<u>871,185</u>	<u>-</u>	<u>871,185</u>	<u>770,014</u>	<u>-</u>	<u>770,014</u>
Change in net assets from operating activities	196,648	(18,373)	178,275	180,233	47,686	227,919
NON-OPERATING ACTIVITIES						
Change in value of beneficial interest a community foundation	-	(5,841)	(5,841)	-	22,925	22,925
Change in net assets from non-operating activities	-	(5,841)	(5,841)	-	22,925	22,925
Change in net assets	<u>196,648</u>	<u>(24,214)</u>	<u>172,434</u>	<u>180,233</u>	<u>70,611</u>	<u>250,844</u>
NET ASSETS, beginning of the year as originally reported	3,512,984	336,475	3,849,459	3,332,751	265,864	3,598,615
NET ASSETS, end 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>

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
Telephone	523	4,182	4,705	523	-	523	5,228
Interest	4,805	-	4,805	-	-	-	4,805
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	<u>\$ 493,337</u>	<u>\$ 289,735</u>	<u>\$ 783,072</u>	<u>\$ 72,406</u>	<u>\$ 15,707</u>	<u>\$ 88,113</u>	<u>\$ 871,185</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, 2021**

	Program Services			Supporting Services			
	Home Construction and Repairs	ReStore	Total	General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 227,711	\$ 144,636	\$ 372,347	\$ 36,920	\$ 5,910	\$ 42,830	\$ 415,177
Payroll taxes	18,021	11,446	29,467	2,922	468	3,390	32,857
Employee benefits	39,291	24,956	64,247	6,370	1,020	7,390	71,637
Workers compensation	3,833	2,435	6,268	622	99	721	6,989
Insurance	27,971	2,047	30,018	1,129	-	1,129	31,147
Repairs and maintenance	7,289	10,214	17,503	6,331	-	6,331	23,834
National affiliate contribution	22,000	-	22,000	-	-	-	22,000
Depreciation	9,400	10,463	19,863	2,137	-	2,137	22,000
Travel and vehicle expense	2,393	19,463	21,856	-	-	-	21,856
Professional fees	1,321	777	2,098	16,702	32	16,734	18,832
Utilities	6,869	9,340	16,209	1,167	-	1,167	17,376
Volunteer and program expense	13,480	581	14,061	-	-	-	14,061
Fundraising and publicity	-	8,724	8,724	-	3,872	3,872	12,596
Office and supplies expense	-	2,438	2,438	5,801	3,087	8,888	11,326
Bank service charges	-	9,841	9,841	114	-	114	9,955
Storage	9,600	-	9,600	-	-	-	9,600
Property taxes	2,982	3,554	6,536	262	-	262	6,798
Home construction costs	6,213	-	6,213	-	-	-	6,213
Telephone	568	4,538	5,106	567	-	567	5,673
Interest	4,669	-	4,669	-	-	-	4,669
Dues and subscriptions	2,811	-	2,811	-	-	-	2,811
Postage and freight	-	-	-	1,505	-	1,505	1,505
Meeting and committee expense	999	-	999	-	-	-	999
Miscellaneous	-	-	-	103	-	103	103
Total	<u>\$ 407,421</u>	<u>\$ 265,453</u>	<u>\$ 672,874</u>	<u>\$ 82,652</u>	<u>\$ 14,488</u>	<u>\$ 97,140</u>	<u>\$ 770,014</u>

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, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 172,434	\$ 250,844
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net unrealized gains on investments	(77)	(907)
Amortization of financing costs included in interest expense	121	121
Change in value of beneficial interest in assets held by community foundation	5,841	(22,925)
Loan forgiveness	(90,140)	-
Non-cash contributions	-	(122,950)
Depreciation	22,744	22,000
Changes in operating assets and liabilities		
Construction in progress	138,910	(218,624)
Completed homes available for sale	3,430	408,437
Pledges receivable	3,592	77,478
Other receivables	(5,456)	2,572
Prepaid expenses	(849)	(40)
Accounts payable and accrued expenses	17,787	1,866
Escrow funds payable	33,381	10,241
Net cash provided by operating activities	301,718	408,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to beneficial interest in assets held by community foundation	(775)	(1,300)
Purchases of property and equipment	(15,869)	(585)
Purchases of investments	(117)	(11)
Net cash used in investing activities	(16,761)	(1,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from forgivable notes payable	-	53,424
Principal payments of long-term debt	(9,683)	(10,069)
Net cash (used in) provided by financing activities	(9,683)	43,355
NET INCREASE IN CASH AND RESTRICTED CASH	275,274	449,572
CASH AND RESTRICTED CASH, beginning of the year	804,221	354,649
CASH AND RESTRICTED CASH, end of the year	\$ 1,079,495	\$ 804,221
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest	\$ 4,684	\$ 4,548
Re-purchase of Habitat properties with assumption of notes payable	\$ -	\$ 217,000
Completed homes reclassified to available for sale	\$ -	\$ 330,445
Completed homes reclassified to available for rent	\$ 131,186	\$ -
Payment of note payable from proceeds of home sale	\$ 101,479	\$ 61,202
Forgiveness of notes payable at time of home sales	\$ -	\$ 328,335
CASH AND RESTRICTED CASH:		
Cash	\$ 950,431	\$ 708,538
Restricted cash	129,064	95,683
	\$ 1,079,495	\$ 804,221

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, 2022 AND 2021**

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.

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.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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.

Donated Services

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.

Donated Assets

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.

During the years ended June 30, 2022 and 2021, the Organization received contributions of land valued at \$0 and \$115,000, respectively.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

REVENUE AND REVENUE RECOGNITION *(Continued)*

Donated Assets *(Continued)*

During the years ended June 30, 2022 and 2021, the Organization received contributions of property and equipment of \$0 and \$7,950, respectively.

Donated building materials are recorded at fair market value when received. Total in-kind contributions of building materials received and recognized for the years ended June 30, 2022 and 2021 were \$35,335 and \$143,277, respectively.

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

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. The income from such land leases is recognized monthly.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021 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, 2022 and 2021, these funds totaled \$129,064 and \$95,683, respectively. A corresponding liability is included in the accompanying statements of financial position.

CONSTRUCTION IN PROGRESS

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, 2022 AND 2021**

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, 2022 and 2021.

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expense was \$21,271 and \$8,724 for the years ended June 30, 2022 and 2021, respectively.

**HABITAT FOR HUMANITY FOR RHODE ISLAND
SOUTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021. 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, 2022 and 2021 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 22, 2022, which is the date the financial statements were available to be issued. There are no subsequent events identified that require disclosure.

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.

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.

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.

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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>2022</u>	<u>2021</u>
Financial assets, at year-end		
Cash	\$ 950,517	\$ 708,538
Restricted cash	128,978	95,683
Investments	5,491	5,297
Pledges receivable	200	3,792
Other receivables	11,749	6,293
Total financial assets, at year end	<u>1,096,935</u>	<u>819,603</u>
Less: those unavailable for general use due to:		
Escrow funds payable	(129,064)	(95,683)
Donor imposed restrictions	<u>(106,302)</u>	<u>(125,450)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 861,569</u>	<u>\$ 598,470</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.

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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 a Community Foundation

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

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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, 2022 and 2021.

Description	Fair Value	Assets (Level 1)	Assets (Level 2)	Assets (Level 3)
2022				
Investments				
Cash	\$ 45	\$ 45	\$ -	\$ -
U.S. equities	5,446	5,446	-	-
	<u>5,491</u>	<u>5,491</u>	-	-
Beneficial interest in community foundation	<u>85,043</u>	-	-	<u>85,043</u>
	<u>\$ 90,534</u>	<u>\$ 5,491</u>	<u>\$ -</u>	<u>\$ 85,043</u>
2021				
Investments				
Cash	\$ 28	\$ 28	\$ -	\$ -
U.S. equities	5,269	5,269	-	-
	<u>5,297</u>	<u>5,297</u>	-	-
Beneficial interest in community foundation	<u>90,109</u>	-	-	<u>90,109</u>
	<u>\$ 95,406</u>	<u>\$ 5,297</u>	<u>\$ -</u>	<u>\$ 90,109</u>

Changes in the value of Level 3 assets for the years ended June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Fair value, beginning of the year	\$ 90,109	\$ 65,884
Contributions received	775	1,300
(Decrease) increase in value of beneficial interests	<u>(5,841)</u>	<u>22,925</u>
Fair value, end of the year	<u>\$ 85,043</u>	<u>\$ 90,109</u>

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NOTE 5 - PROPERTY AND EQUIPMENT

As of June 30, 2022 and 2021, the components of property and equipment are as follows:

	2022	2021
Buildings	\$ 487,288	\$ 487,288
Property available for rent	340,796	209,608
Vehicles	36,103	36,103
Land	37,500	37,500
Fixtures and equipment	37,977	22,111
	939,664	792,610
Less accumulated depreciation	278,968	256,225
	\$ 660,696	\$ 536,385

Depreciation expense for the years ended June 30, 2022 and 2021 was \$22,744 and \$22,000, 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, 2022 and 2021.

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, 2022 and 2021 is presented net of unamortized financing costs of \$554 and \$675, respectively.

As of June 30, 2022, annual maturities of the mortgage payable are as follows:

Year ending June 30:		
2023	\$	11,150
2024		11,719
2025		12,316
2026		12,943
2027		13,603
2028 and thereafter		32,560
Total	\$	94,291

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NOTE 7 - LONG-TERM DEBT (Continued)

Interest expense for the years ended June 30, 2022 and 2021 consists of the following:

	2022	2021
Interest expense	\$ 4,684	\$ 4,548
Amortization of financing costs	121	121
	\$ 4,805	\$ 4,669

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 bears interest at 1% and is 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 and \$368,479, respectively as of June 30, 2022 and 2021, 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 20, 2021 was 3.25%. As of June 30, 2022 and 2021, no amounts were outstanding under the agreement.

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NOTE 11 - COMMITMENTS

Operating Leases

The Organization leases a vehicle and certain administrative equipment under two separate operating lease agreements. One agreement expired in December 2021 and the other expires in December 2025. Rent expense under such leases for the years ended June 30, 2022 and 2021 amounted to \$16,518 and \$17,448, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30:		
2023	\$	15,588
2024		15,588
2025		15,588
2026		6,495
		<u>6,495</u>
Total	\$	<u>53,259</u>

NOTE 12 - NET ASSETS

NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022 and 2021, the Organization has net assets with donor restrictions available for the following purposes:

	<u>2022</u>	<u>2021</u>
Time restrictions:		
Beneficial interest in a community foundation	\$ 85,043	\$ 90,109
Real estate held in perpetuity	120,916	120,916
Purpose restrictions:		
Home construction	43,126	49,342
Housing education	42,984	43,833
Donor development	9,682	9,682
Home repairs	7,638	7,638
Youth advocacy	2,500	2,500
Volunteer management system	372	-
Tool purchases	-	12,455
	<u>-</u>	<u>12,455</u>
Total	<u>\$ 312,261</u>	<u>\$ 336,475</u>

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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, 2022 and 2021 are as follows:

	2022	2021
Purpose restrictions:		
Home construction	\$ 194,838	\$ 32,705
Volunteer coordinator	34,355	18,952
Tool purchases	12,455	2,843
Roof replacement	6,100	-
AED	1,400	-
Homebuyer education	849	750
Home repairs	-	7,215
Youth advocacy	-	2,500
Total net assets released	\$ 249,997	\$ 64,965

NOTE 13 - 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, 2022 and 2021.

For the years ended June 30, 2022 and 2021, the employer contribution was \$11,098 and \$10,296 respectively.