

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED  
JUNE 30, 2017  
WITH  
INDEPENDENT AUDITORS' REPORT

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.

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# GOLDEN, GORMLY & COMPANY, LTD.

CERTIFIED PUBLIC ACCOUNTANTS  
& BUSINESS CONSULTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity of West Bay and Northern Rhode Island, Inc.  
Warwick, RI 02887-6743

We have audited the accompanying financial statements of Habitat for Humanity of West Bay and Northern Rhode Island, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of West Bay and Northern RI, Inc. as of June 30, 2017, 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Golden, Gormly & Company, Ltd.*

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Golden, Gormly & Company, Ltd.  
Wakefield, RI  
February 28, 2018

HABITAT FOR HUMANITY OF WEST BAY AND  
NORTHERN RHODE ISLAND, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017

--A S S E T S--	
CURRENT ASSETS:	
Cash	\$ 139,982
Restricted Cash - Escrow Funds	3,921
Current Portion of Mortgages Receivable, Net of Discounts	10,741
Construction in Progress	22,567
Receivable - Other	15,663
Inventory - Building Materials	2,148
Total Current Assets	195,022
PROPERTY AND EQUIPMENT:	
Office Equipment	2,000
LESS: Accumulated Depreciation	(429)
Total Property and Equipment, Net	1,571
OTHER ASSETS:	
Mortgages Receivable - Net of Discounts	156,536
Land Leased To Homeowners	662,066
Property Held for Development	146,618
Total Other Assets	965,220
TOTAL ASSETS	\$ 1,161,813
--L I A B I L I T I E S   A N D   N E T   A S S E T S--	
CURRENT LIABILITIES:	
Escrow Funds Payable	\$ 3,921
Total Current Liabilities	3,921
NET ASSETS - UNRESTRICTED	1,157,892
TOTAL LIABILITIES AND NET ASSETS	\$ 1,161,813

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

HABITAT FOR HUMANITY OF WEST BAY AND  
NORTHERN RHODE ISLAND, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted
<b>REVENUE</b>	
Donations and Gifts	\$ 9,488
Grant Income	73,951
Fundraising, Leasing and Other	7,890
Interest Income	41
Mortgage Loan Discount Amortization	11,727
Miscellaneous Income	525
Total Revenue	103,622
<b>EXPENSES</b>	
Program Services	7,107
Support Services	
Management and General	2,621
Fundraising	300
Total Expenses	10,028
<b>CHANGE IN NET ASSETS</b>	93,594
<b>NET ASSETS - BEGINNING OF YEAR</b>	1,064,298
<b>NET ASSETS - END OF YEAR</b>	\$ 1,157,892

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

HABITAT FOR HUMANITY OF WEST BAY AND  
NORTHERN RHODE ISLAND, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

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CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 93,594
Non-Cash Income/Expenses Included in Change in Net Assets:	
Depreciation and Amortization	286
Mortgage Loan Discount Amortization	(11,727)
Changes in Operating Assets and Liabilities:	
Construction in Progress	(22,567)
Receivable - Other	(8,127)
Land Leased To Homeowners	(730)
Property Held for Development	(124,277)
Deposits, Escrow and Other Payables	(6,944)
Net Cash Used By Operating Activities	<u>(80,492)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Mortgages Receivable	<u>26,649</u>
DECREASE IN CASH	(53,843)
CASH - BEGINNING OF YEAR	<u>197,746</u>
CASH - END OF YEAR	<u>\$ 143,903</u>

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

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS**

Habitat for Humanity of West Bay and Northern Rhode Island, Inc. (HHWB) is a non-profit, Rhode Island corporation that sponsors specific projects in habitat development within the West Bay and Northern area of Rhode Island. The mission of HHWB is to contribute to the elimination of substandard housing by creating decent homes in partnership with people in need.

HHWB's Program Services include its home construction, rehab and homeowner assistance programs.

**BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared on the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

**PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost. Donated property and equipment are recorded at fair market value. Additions, improvements and expenditures for repairs and maintenance that significantly add to the productivity or extend the economic life of the assets are capitalized. Other expenditures for repairs and maintenance are charged to operations as incurred. When assets are retired or sold, the assets and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is credited or charged to income. HHWB depreciates property and equipment using the straight-line method over the estimated useful lives of the respective assets.

**INCOME TAXES**

HHWB qualifies as a tax-exempt organization under Section 501(C)(3) of the Internal Revenue Code. HHWB is included as a subordinate under the group exemption for Habitat for Humanity International, Inc.

HHWB is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. HHWB is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Generally, HHWB's tax returns remain open for three years for federal income tax examinations. Furthermore, HHWB has determined it does not have any uncertain income tax positions that materially impact the financial statements or related disclosures.



HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**PROPERTY HELD FOR DEVELOPMENT/LAND LEASED TO HOMEOWNERS**  
Property held for development consists of all property either donated or purchased by HHWB to be used for new construction of housing.

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

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

**FINANCIAL STATEMENT PRESENTATION**

HHWB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, HHWB is required to present a statement of cash flows.

**MORTGAGES RECEIVABLE**

Mortgages Receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the lives of the mortgages. Each mortgage is discounted at the date of origination. The original discount is amortized and recognized into income over the life of the mortgage. See Note 2.

HHWB has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed uncollectible. Furthermore, the discounted value of mortgages at the time of the sale is generally less than the home's fair market value. Therefore, management believes any reclaimed house can be resold at or above the amount of unpaid loan balance plus any associated costs to sell the home. Accordingly, no allowance for uncollectible accounts has been established. Currently, foreclosure proceedings have begun on one of these mortgages. As of June 30, 2017, the discounted present value of this loan included in Mortgages Receivable on the Statement of Financial Position totaled \$11,067.

**FUNCTIONAL ALLOCATION OF EXPENSES**

Certain direct, indirect and administrative expenses are incurred which benefit more than one program; therefore, HHWB allocates these expenses accordingly using time charged by volunteer, square footage and various other methods.

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

CONTRIBUTIONS

HHWB records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

DONATED SERVICES

Donated services are recognized as contributions in accordance with accounting standards at their fair market value, if the services: 1) create or enhance nonfinancial assets; or 2) require specialized skills and are performed by people with those skills or would otherwise be purchased by HHWB. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements because they do not qualify for recording under the guidelines of accounting standards. However, a substantial number of volunteers have made significant contributions of their time to HHWB's construction projects, fundraising events and daily activities.

DONATED MATERIALS

Donated building materials are recorded at fair market value when received and are generally included in Donations and Gifts on the Statement of activities and changes in net assets. For the year ended June 30, 2017 no In-Kind contributions were received or recognized.

CASH AND CASH EQUIVALENTS

HHWB considers investments with maturities of three months or less to be cash equivalents.

RESTRICTED CASH

Restricted Cash is comprised of cash escrow funds received from homeowners that are held for insurance, property taxes and maintenance. As of June 30, 2017, these funds totaled \$3,921. A corresponding liability is included in the accompanying statement of financial position.

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS

HHWB has evaluated subsequent events through February 28, 2018, which represents the date the financial statements were available to be issued.

NOTE 2 – MORTGAGES RECEIVABLE

HHWB currently holds seven mortgages on its previously constructed properties as of June 30, 2017. The mortgages have various maturity dates, monthly payments and charge 0% interest. HHWB accounts for their mortgages in accordance with the Habitat for Humanity International's U.S. Affiliate Accounting Policy Manual. Under this guide, the non-interest bearing mortgages are discounted to their present value at the time the mortgage is issued. The discounted amount is amortized over the life of the mortgage using an imputed interest rate of 8% on a straight-line basis. Mortgages are reported net of unamortized discount. For the year ended June 30, 2017, imputed interest of \$11,727 was amortized and recorded as income.

Mortgages receivable and the related discount are summarized as follows as of June 30, 2017:

Mortgages Receivable	\$ 344,062
Less: Unamortized Discount	<u>(176,785)</u>
Mortgages Receivable, Net of Discounts	<u>\$ 167,277</u>

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2 – MORTGAGES RECEIVABLE (CONTINUED)

The following are maturities for the principal payments due on the above mortgage receivables for each of the next five years and in the aggregate:

Year Ended <u>June 30,</u>	<u>Amount</u>
2018	\$ 25,314
2019	19,316
2020	19,316
2021	18,810
2022	16,820
Beyond	<u>244,486</u>
Total	344,062
Less: Unamortized Discount	<u>(176,785)</u>
	<u>\$ 167,277</u>

At times, HHWB sells these mortgages to RI Housing, usually at a discount of 30% of the face value of the mortgage at the time of sale. However, during the year ended June 30, 2017 no mortgages were sold to RI Housing.

NOTE 3 – CONSTRUCTION IN PROGRESS

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

NOTE 4 – RECEIVABLE – OTHER

The balance in this account represents payments made by HHWB from its escrow that have not yet been repaid by primarily two homeowners. HHWB has initiated foreclosure proceedings with one of these homeowners and upon buy back of the property HHWB will recoup this amount.

NOTE 5 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash flows from operating activities, as reported in the accompanying statement of cash flows for the year ended June 30, 2017, reflect no cash payments for interest and \$40 for taxes.

NOTE 6 – SUPPORT AND REVENUE

During the year ended June 30, 2017, HHWB received a grant from the City of Woonsocket for \$67,506 to be used for the purchase and acquisition of a property. This amount represents approximately 66% of total support and revenue.

HABITAT FOR HUMANITY OF WEST BAY  
AND NORTHERN RHODE ISLAND, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7 – RELATED PARTY

HHWB remits a portion of its revenues as a tithe to Habitat for Humanity International, Inc. These funds are used to help construct homes in economically depressed areas around the world. For the year ended June 30, 2017, HHWB remitted \$2,184.

In addition, HHWB also paid a Stewardship and Organizational Sustainability Fee (SOSI) in the amount of \$1,500.

During the year ended June 30, 2017 HHWB received donations from members of the Board of Directors, which totaled \$2,000.

NOTE 8 – FAIR VALUE MEASUREMENTS

HHWB applies generally accepted accounting principles for fair value measurements of assets that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on independent quoted market prices. GAAP establishes 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 measurements involving unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that HHWB has the ability to access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTE 9 – CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject HHWB to a concentration in credit risk consist principally of cash in the bank in excess of FDIC limits. As of June 30, 2017, HHWB had no amounts that exceeded FDIC insurance limits at high credit quality financial institutions.

HABITAT FOR HUMANITY OF WEST BAY AND  
 NORTHERN RHODE ISLAND, INC.  
 SCHEDULE OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Rent Expense	\$ 0	\$ 0	\$ 300	\$ 300
Insurance	1,012	602	0	1,614
National Affiliate Contribution	3,684	0	0	3,684
Property Taxes	40	0	0	40
Utilities	0	609	0	609
Legal and Professional	1,100	0	0	1,100
Office and Supplies Expense	183	842	0	1,025
Bank Service Charges	0	13	0	13
Donations	0	450	0	450
Travel and Conferences	663	0	0	663
Miscellaneous	139	105	0	244
Depreciation and Amortization	286	0	0	286
 Total	 \$ 7,107	 \$ 2,621	 \$ 300	 \$ 10,028