

SOUTH SHORE HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Shore Habitat For Humanity, Inc.
Weymouth, Massachusetts

We have audited the accompanying financial statements of South Shore Habitat for Humanity, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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 South Shore Habitat for Humanity, Inc. as of June 30, 2021 and 2020, 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.



CITRIN COOPERMAN®
Accountants and Advisors

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, the Organization adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* as of July 1, 2020. Our opinion is not modified with respect to this matter.


CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
November 4, 2021

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	<u>ASSETS</u>	
	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 887,537	\$ 595,622
Current portion of mortgages receivable	116,952	121,778
Prepaid expenses and other current assets	5,790	15,662
Inventory and uninstalled materials	-	26,700
Construction in progress, net	<u>72,831</u>	<u>303,485</u>
Total current assets	<u>1,083,110</u>	<u>1,063,247</u>
Property and equipment, net	<u>-</u>	<u>1,607</u>
Other assets:		
Mortgages receivable, net of current portion	420,845	464,861
Other assets	<u>9,800</u>	<u>37,300</u>
Total other assets	<u>430,645</u>	<u>502,161</u>
TOTAL ASSETS	<u><u>\$ 1,513,755</u></u>	<u><u>\$ 1,567,015</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Construction loan	\$ -	\$ 300,000
Deferred revenue	31,100	1,200
Accounts payable and accrued expenses	44,277	55,634
Current liabilities of discontinued operations	<u>-</u>	<u>292,963</u>
Total liabilities	<u>75,377</u>	<u>649,797</u>
Net assets:		
Without donor restrictions	965,001	566,666
With donor restrictions	<u>473,377</u>	<u>350,552</u>
Total net assets	<u>1,438,378</u>	<u>917,218</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,513,755</u></u>	<u><u>\$ 1,567,015</u></u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Sales of homes	\$ 510,000	\$ -	\$ 510,000	\$ 970,000	\$ -	\$ 970,000
In-kind donations:						
Land	-	61,033	61,033	-	220,133	220,133
Services and construction materials	-	100,785	100,785	-	89,776	89,776
Donations:						
Individual	238,654	219,438	458,092	165,340	55,925	221,265
Corporate	3,585	-	3,585	30,702	-	30,702
Congregation	3,050	-	3,050	11,646	-	11,646
Grants	164,500	182,000	346,500	200,400	128,605	329,005
Special events	90,581	-	90,581	200,225	-	200,225
Mortgage discount amortization	169,949	-	169,949	87,582	-	87,582
Net gain on sale of mortgages	-	-	-	346,353	-	346,353
Other income, net	1,299	-	1,299	20,521	-	20,521
Net assets released from restrictions	<u>440,431</u>	<u>(440,431)</u>	<u>-</u>	<u>718,249</u>	<u>(718,249)</u>	<u>-</u>
Total revenues and other support	<u>1,622,049</u>	<u>122,825</u>	<u>1,744,874</u>	<u>2,751,018</u>	<u>(223,810)</u>	<u>2,527,208</u>
Expenses:						
Program services:						
Cost of homes sold	619,581	-	619,581	1,293,891	-	1,293,891
Mortgage discount	109,519	-	109,519	191,405	-	191,405
Tithe to Habitat for Humanity International	8,000	-	8,000	24,000	-	24,000
Other	<u>417,648</u>	<u>-</u>	<u>417,648</u>	<u>502,670</u>	<u>-</u>	<u>502,670</u>
Total program services expenses	<u>1,154,748</u>	<u>-</u>	<u>1,154,748</u>	<u>2,011,966</u>	<u>-</u>	<u>2,011,966</u>
Supporting services:						
Fundraising	123,742	-	123,742	210,598	-	210,598
General and administrative	<u>92,860</u>	<u>-</u>	<u>92,860</u>	<u>77,268</u>	<u>-</u>	<u>77,268</u>
Total supporting services expenses	<u>216,602</u>	<u>-</u>	<u>216,602</u>	<u>287,866</u>	<u>-</u>	<u>287,866</u>
Total expenses	<u>1,371,350</u>	<u>-</u>	<u>1,371,350</u>	<u>2,299,832</u>	<u>-</u>	<u>2,299,832</u>
Changes in net assets from continuing operations	250,699	122,825	373,524	451,186	(223,810)	227,376
Discontinued operations - loss from operations of ReStore	147,636	-	147,636	(575,708)	-	(575,708)
Net assets - beginning	<u>566,666</u>	<u>350,552</u>	<u>917,218</u>	<u>691,188</u>	<u>574,362</u>	<u>1,265,550</u>
NET ASSETS - ENDING	<u>\$ 965,001</u>	<u>\$ 473,377</u>	<u>\$ 1,438,378</u>	<u>\$ 566,666</u>	<u>\$ 350,552</u>	<u>\$ 917,218</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021 (WITH COMPARATIVE TOTALS FOR 2020)

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>2021 Total</u>	<u>2020 Comparative Totals</u>
Cost of homes sold	\$ 619,581	\$ -	\$ -	\$ 619,581	\$ 1,293,891
Salaries and benefits	260,509	72,789	49,971	383,269	453,910
Mortgage discount	109,519	-	-	109,519	191,405
Rent	81,649	5,325	1,775	88,749	81,015
Miscellaneous	13,569	858	16,984	31,411	4,178
Golf tournament costs	-	25,490	-	25,490	23,860
Computer maintenance fees	10,736	6,664	1,111	18,511	10,111
Construction	18,300	-	-	18,300	18,948
Professional fees	-	-	14,592	14,592	33,905
Ground maintenance	13,039	850	283	14,172	6,241
Utilities	7,951	519	173	8,643	8,640
Tithe	8,000	-	-	8,000	24,000
Telephone	4,030	2,501	417	6,948	8,596
Postage	441	4,550	1,333	6,324	9,374
Insurance	5,560	-	-	5,560	13,209
Travel	1,091	159	2,343	3,593	1,686
Bank charges	-	-	2,979	2,979	6,135
Supplies	2,431	214	270	2,915	24,982
Dues and subscriptions	-	2,379	-	2,379	2,120
Depreciation	1,478	96	33	1,607	1,399
Gala costs	-	894	-	894	11,393
Conference and seminars	-	-	596	596	439
Ride for Habitat costs	-	454	-	454	3,064
Interest	438	-	-	438	49,774
Bad debt expense (recovery)	(3,574)	-	-	(3,574)	17,260
Printing	-	-	-	-	297
TOTAL EXPENSES	<u>\$ 1,154,748</u>	<u>\$ 123,742</u>	<u>\$ 92,860</u>	<u>\$ 1,371,350</u>	<u>\$ 2,299,832</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of homes sold	\$ 1,293,891	\$ -	\$ -	\$ 1,293,891
Salaries and benefits	276,399	149,527	27,984	453,910
Mortgage discount	191,405	-	-	191,405
Rent	74,534	4,861	1,620	81,015
Interest	49,774	-	-	49,774
Professional fees	-	-	33,905	33,905
Supplies	23,409	180	1,393	24,982
Tithe	24,000	-	-	24,000
Golf tournament costs	-	23,860	-	23,860
Construction	18,948	-	-	18,948
Bad debt expense	17,260	-	-	17,260
Insurance	13,209	-	-	13,209
Gala costs	-	11,393	-	11,393
Computer maintenance fees	5,864	3,640	607	10,111
Postage	1,969	5,414	1,991	9,374
Utilities	7,949	518	173	8,640
Telephone	4,986	3,095	515	8,596
Ground maintenance	5,742	374	125	6,241
Bank charges	-	-	6,135	6,135
Miscellaneous	1,168	1,859	1,151	4,178
Ride for Habitat costs	-	3,064	-	3,064
Dues and subscriptions	-	2,120	-	2,120
Travel	172	312	1,202	1,686
Depreciation	1,287	84	28	1,399
Conference and seminars	-	-	439	439
Printing	-	297	-	297
TOTAL EXPENSES	<u>\$ 2,011,966</u>	<u>\$ 210,598</u>	<u>\$ 77,268</u>	<u>\$ 2,299,832</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Operating activities:		
Continuing operations:		
Change in net assets from continuing operations	\$ 373,524	\$ 227,376
Adjustments to reconcile changes in net assets to net cash provided by continuing operating activities:		
Depreciation expense	1,607	1,399
Mortgage discount	109,519	191,405
Mortgage discount amortization	(169,949)	(87,582)
Bad debts (recovery)	(3,574)	17,260
Proceeds from sale of mortgages	-	356,760
Gain on sale of mortgages	-	(346,353)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Other assets	27,500	(4,900)
Mortgages receivable	112,846	(150,868)
Prepaid expenses and other current assets	9,872	22,773
Uninstalled materials	26,700	25,536
Construction in progress	230,654	809,044
Increase (decrease) in:		
Accounts payable and accrued expenses	(11,357)	(51,662)
Deferred revenue	<u>29,900</u>	<u>(2,700)</u>
Net cash provided by continuing operations	<u>737,242</u>	<u>1,007,488</u>
Discontinued operations:		
Change in net assets from discontinued operations	147,636	(575,708)
Adjustments to reconcile change in net assets to net cash used in discontinued operations:		
Loss on disposal of property and equipment	-	77,782
Depreciation expense	-	27,453
Changes in operating assets and liabilities:		
(Increase) decrease in uninstalled materials	-	45,814
Increase (decrease) in accounts payable and accrued expenses	<u>(292,963)</u>	<u>254,455</u>
Net cash used in discontinued operations	<u>(145,327)</u>	<u>(170,204)</u>
Net cash provided by operating activities	<u>591,915</u>	<u>837,284</u>
Financing activities:		
Net proceeds from line of credit	-	105,000
Payments on long-term debt	<u>(300,000)</u>	<u>(388,600)</u>
Net cash used in financing activities	<u>(300,000)</u>	<u>(283,600)</u>
Net increase in cash and cash equivalents	291,915	553,684
Cash and cash equivalents - beginning	<u>595,622</u>	<u>41,938</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 887,537</u>	<u>\$ 595,622</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 438</u>	<u>\$ 49,774</u>
Payments on line of credit with mortgage sale proceeds	<u>\$ -</u>	<u>\$ 445,000</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1. ORGANIZATION

South Shore Habitat for Humanity, Inc. (the "Organization") is a Massachusetts faith-based, nonprofit organization dedicated to building simple, decent homes in partnership with families in need. The Organization was founded in 1986 as an affiliate of Habitat for Humanity International ("HFHI" or "Habitat").

The Organization pursues its mission by building homes using donated land, supplies, volunteer labor, contributed funds and properties obtained for minimal cost. The Organization then sells these homes at no more than cost plus the value of the donated materials to selected, low-income families. The land is typically donated by cities and towns and, frequently, these donations subject the home sale to a maximum selling price. The Organization provides the recipient families with no cash down payment, no-interest financing. Families contribute "sweat equity" in their homes or succeeding homes. During the year ended June 30, 2021, the Organization sold two homes. The Organization sold four homes during the year ended June 30, 2020. At June 30, 2021 and 2020, there were five and three outstanding commitments to build, respectively.

In June 2016, the Organization opened the Habitat for Humanity ReStore (the "ReStore") in Hanover, Massachusetts as a retail business that accepted donations of new and gently-used building materials, furniture, appliances, kitchen cabinets and housewares and sold them to the public at deeply discounted prices through a retail storefront warehouse. The proceeds from the ReStore were used to support the Organization in its mission to build homes, communities and hope. In December 2019, the Organization decided to discontinue its ReStore operations and closed the retail location in order to focus on the primary mission of the Organization. See Note 3 for summary financial data of the discontinued operations of the ReStore.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Organization follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic *Presentation of Financial Statements For Non-Profit Entities*. Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. The Organization may designate portions of its unrestricted net assets as board designated for various purposes.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2021 and 2020, there were no donor restrictions perpetual in nature.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is at the time when the conditions on which they depend are substantially met. All donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues in the net assets with donor restrictions category, and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions.

The Organization receives donated land, services, construction materials and ReStore materials. Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. If a donor makes a contribution to the Organization in the form of marketable securities, it is the policy of the Organization to immediately liquidate the securities. Donated services are recognized as contributions at estimated fair value if the services create or enhance non-financial assets or require specialized skills, which would otherwise be purchased; therefore, the estimated fair value of construction trade services donated by electricians and plumbers is reflected in the accompanying financial statements.

The Organization utilizes the time, talent and energy of numerous volunteers to complete their construction projects; these services are not recorded on the accompanying financial statements since their time does not meet the criteria necessary for recognition. It is also common for cities, towns and other municipalities to donate land for the construction project. This land is reported at its estimated fair value which considers any deed restrictions. The in-kind donation of land is recorded upon completion and sale of the home as that is when the conditions of the donation have been met.

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless the use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Sale to Homeowners - Year Ended June 30, 2021

The Organization adopted ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606") on July 1, 2020. With the adoption of Topic 606, revenue is measured based on the consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Under Topic 606, the Organization recognizes revenue when it satisfies performance obligations by transferring control over a product or service to a customer. The Organization's goods and services are distinct and as such, are treated as single performance obligation that is satisfied as the goods and services are rendered. The Organization determines the transaction price based on contractually agreed upon rates, adjusted for variable consideration, if any.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Sale to Homeowners - Year Ended June 30, 2020

Revenue from sales of homes is recognized upon closing. When the Organization receives a non-interest bearing mortgage loan at closing, mortgage discount expense is recognized to reflect imputed interest on the note. The discount is amortized into income over the life of the mortgage, typically 20 to 30 years.

The Organization may from time to time sell the rights to its mortgage receivables, at a discount, to third-party financial institutions. The gain or loss on the sale of the mortgage are calculated using the mortgage receivable balance net of the unamortized mortgage discount. There were no mortgages sold during the year ended June 30, 2021. During the year ended June 30, 2020, the Organization recognized gains from the sale of mortgages of approximately \$350,000, presented as a component of revenue and other support on the 2020 statement of activities.

The Organization holds various special events throughout the course of the year. Special events revenue is recognized over the period the event takes place.

Disaggregation of Revenue

The Organization operates as a nonprofit organization to build homes for families in need using donated land, supplies, volunteer labor, contributed funds and sweat equity of the families in need. The Organization's viability is dependent on its ability to complete a home-building project and match a family in need. The Organization recognizes revenue from the sale of homes at a point in time upon closing.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Mortgages Receivable

The Organization directly finances properties for buyers. The mortgages are non-interest bearing and therefore, are presented net of a discount (Note 5). When a borrower's payments are more than two months behind, the mortgage is considered to be delinquent. Mortgages receivable with delinquent payments at June 30, 2021 and 2020 were \$324,730 and \$396,219, respectively. Management works with the homebuyers to maintain a current payment schedule. However, if a property is foreclosed, recognition of mortgage discount amortization is suspended upon the completion of foreclosure proceedings when title to the property has been obtained by the Organization.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable (continued)

An allowance for doubtful accounts is provided for those mortgages receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding mortgages receivable at the end of the year. Bad debts are written off against the allowance when identified. At June 30, 2021 and 2020, the allowance for doubtful accounts was \$16,237 and \$19,811, respectively.

Upon receiving title to a property as a result of foreclosure, or when foreclosure proceedings have progressed to a point where management is certain that the Organization will reclaim the property, the Organization's policy is to reclassify the mortgage receivable to property held for sale as the fair market value of the mortgaged property typically exceeds the balance on the mortgage. All related reserves on the mortgage receivable are reversed at that time.

Inventory and Uninstalled Materials

In 2019, the Organization's inventory consisted primarily of donated materials to be sold in the ReStore, which were recorded at estimated fair value based on expected selling price, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. During 2020, the Organization decided to close the ReStore, and determined that the inventory on hand did not have a net realizable value and all remaining inventory was written off.

Also included in the Organization's inventory is uninstalled construction materials which are stated at the lower of cost or net realizable value. The Organization reviews its uninstalled construction materials for product that is obsolete and no longer usable in construction projects. For the year ended June 30, 2020, uninstalled construction materials was valued at \$41,700, which is net of a reserve for obsolete inventory of \$15,000. During 2021, the Organization determined that the uninstalled construction materials on hand did not have a net realizable value and all remaining uninstalled materials were written off.

Construction in Progress

Construction in progress includes costs related to the acquisition and development of land, other costs incurred while building a home and capitalized overhead costs. Capitalized overhead costs include insurance, construction period interest, and other various indirect costs. Upon the sale of a home, these costs are recognized as costs of homes sold. Due to certain restrictions imposed by HFHI and donors of land, the Organization is usually required to sell homes at specified prices. Therefore, on an annual basis, management evaluates construction in progress and the estimated costs to complete each home to determine whether such costs are in excess of amounts expected to be realized upon sale of the property. If estimated costs, exclusive of in-kind donations, are expected to exceed the sale amount, a reserve is recorded as an allowance for excess construction costs. An allowance for excess construction costs of \$31,165 and \$21,186 was recorded at June 30, 2021 and June 30, 2020, respectively.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost or fair value, if received by donation. The Organization capitalizes expenditures for property and equipment in excess of \$5,000. Expenditures for major improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets which are five years.

Deferred Revenue

Deferred revenue represents special event revenue received by the Organization prior to the fiscal year end for special events occurring in the next fiscal year.

Deferred Rent

Rent expense on operating leases is recognized on a straight-line basis over the life of the related lease. The difference between rent expense recognized and rental payments as stipulated in the lease agreements are reflected as deferred rent and amortized over the life of the lease. Deferred rent is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was \$770 for the year ended June 30, 2020. There were no advertising expenses for the year ended June 30, 2021.

Functional Expenses

The costs of providing various activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. Employee compensation and related expenses are allocated on the basis of time and effort. Other expenses that are allocated include equipment depreciation and repairs, occupancy fees and technology and communications, which are allocated based on the nature of the expense and the program benefiting from it.

Tax Status

The Organization is a not-for-profit social welfare corporation that is qualified under Section 501(c)(3) of the Internal Revenue Code (the "Code" or "IRC") and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Organization accounts for uncertain tax positions in accordance with FASB ASC Topic *Income Taxes*. The Topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The Topic also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Organization files informational tax returns in the U.S federal and Massachusetts state jurisdictions. Management believes the Organization has no material uncertainties in income taxes.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"), with several clarifying updates issued subsequently. In conjunction with Topic 606, a new subtopic, ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, was also issued. The updated standard replaces most existing revenue recognition and certain cost guidance under U.S. GAAP. Collectively, the Organization refers to Topic 606 and Subtopic 340-40 as "ASC 606". ASC 606 amends existing accounting standards for revenue recognition and establishes principles for recognizing revenue upon the transfer of promised goods or services to customers based on the expected consideration to be received in exchange for those goods and services. The Organization adopted ASC 606 effective July 1, 2020 using the modified retrospective approach. Use of the modified retrospective approach means the Organization's comparative periods prior to initial application are not restated. The Organization has determined that the adjustments using the modified retrospective approach did not have a material impact on the date of the initial application along with the disclosure of the effect on prior periods. The Organization did not apply any practical expedients in implementing ASC 606.

Recently Issued But Not Yet Effective Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the consolidated statement of financial position through a right-of-use asset and a lease liability and enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, and ASU No. 2018-11, *Leases: Targeted Improvements*, which provided narrow amendments to clarify how to apply certain aspects of the new leases standard and options regarding transition. The standard requires either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits the Agency to use its effective date as the date of initial application without restating the comparative period consolidated financial statements and recognizing any cumulative effect adjustment to the opening statement of financial position. In November 2019, FASB issued ASU No. 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* ("ASU 2019-10") and in June 2020, FASB issued ASU 2020-05. ASU 2019-10 and ASU 2020-05 amended the effective date for ASU 2016-02 and related amendments. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the effect on its consolidated financial statements and related disclosures.

In-kind Contributions - In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which is intended to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This ASU is effective for annual periods beginning after June 15, 2021, with early adoption permitted. The Organization is evaluating the effect that ASU 2020-07 will have on its financial statements and related disclosures.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Organization has evaluated all events subsequent to the statement of financial position date of June 30, 2021, through the date which the financial statements were available to be issued, November 4, 2021, and has determined that there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

NOTE 3. DISCONTINUED OPERATIONS

In December 2019, the Organization closed the ReStore, and, accordingly, the Organization's financial statements have been prepared with the ReStore's financial position as of June 30, 2021 and 2020, and its related net change in assets and cash flows for the years ended June 30, 2021 and 2020 separately stated as "discontinued operations".

The results of the ReStore's discontinued operations are summarized as follows for the years ending June 30:

	<u>2021</u>	<u>2020</u>
ReStore income	\$ -	\$ 188,469
ReStore costs and expenses	(36,103)	(489,574)
Loss from abandoned leasehold improvements	-	(77,782)
Income from lease agreement settlement	183,739	-
Loss from lease term rent accrual	-	(150,750)
Loss from inventory impairment	<u>-</u>	<u>(46,071)</u>
Net income (loss) from discontinued operations	<u>\$ 147,636</u>	<u>\$ (575,708)</u>

As of June 30, 2021 and 2020, the Organization's assets and liabilities related to the ReStore discontinued operations were as follows:

	<u>2021</u>	<u>2020</u>
Current assets	\$ -	\$ -
Property and equipment, net	\$ -	\$ -
Current liabilities	\$ -	\$ (292,963)

Assets of the ReStore, consisting primarily of inventory and leasehold improvements, have been recorded at their estimated net realizable values in the accompanying statements of financial position. Liabilities of the ReStore, consisting primarily of the additional rent accrual through the end of the lease term, are classified as current liabilities in the accompanying statements of financial position.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 4. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2021:

Cash and cash equivalents	\$ 887,537
Mortgages receivable	<u>116,952</u>
	1,004,489
Less net assets with donor restrictions	(473,377)
Less board designated net assets	<u>(200,000)</u>
	331,112
Add net assets with restrictions to be met in less than a year	<u>271,847</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u><u>602,959</u></u>

The Organization has certain donor-restricted net assets totaling \$271,847 that are available for general expenditure within one year of June 30, 2021 because the restrictions on those net assets are expected to be met by conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available for general expenditure within one year.

The Organization's goal is generally to maintain readily available financial assets to meet three months of operating expenses. As part of management's liquidity plan, cash is maintained in checking and savings accounts and is readily available for use. The Organization also has a \$287,402 line of credit available to meet cash flow needs at June 30, 2021. Financial assets available to meet general expenditures over the next twelve months noted above do not include the balance of construction in progress of \$72,831. The homes included in construction in progress are expected to be sold in the next fiscal year and the current portion of the related mortgages from these sales will be available for operations.

NOTE 5. MORTGAGES RECEIVABLE

The Organization has mortgages receivable consisting of non-interest bearing notes, which are secured by real estate and payable in monthly installments, typically over a 20 to 30 year period. The Organization imputes interest over the life of all mortgages receivable according to rates set by HFHI. Rates for outstanding mortgages receivable vary from 7.23% to 8.48%. For the years ended June 30, 2021 and 2020, newly issued mortgages receivable were discounted by 7.23% and 7.38%, respectively.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 5. MORTGAGES RECEIVABLE (CONTINUED)

The mortgages receivable at June 30 are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total mortgages receivable	\$ 1,281,816	\$ 1,394,661	\$ 2,336,410
Less unamortized discount	(727,782)	(788,211)	(1,321,598)
Less allowance for doubtful accounts	<u>(16,237)</u>	<u>(19,811)</u>	<u>(2,551)</u>
	537,797	586,639	1,012,261
Less current portion of mortgages receivable	<u>116,952</u>	<u>121,778</u>	<u>173,593</u>
	<u>\$ 420,845</u>	<u>\$ 464,861</u>	<u>\$ 838,668</u>

Mortgages receivable are expected to be collected for the years ended June 30, as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2022	\$ 116,952
2023	110,134
2024	96,724
2025	91,421
2026	82,461
Thereafter	<u>784,124</u>
	<u>\$ 1,281,816</u>

NOTE 6. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Warehouse equipment and vehicles	\$ 28,858	\$ 28,858
Computer equipment	12,638	12,638
Telephone equipment	<u>5,492</u>	<u>8,492</u>
Total cost	46,988	49,988
Less accumulated depreciation	<u>46,988</u>	<u>48,381</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ 1,607</u>

NOTE 7. DEMAND NOTE PAYABLE

The Organization had a \$500,000 line of credit agreement with a bank which was reduced to \$287,402 at June 30, 2020, as the Organization's needs for available line of credit advances was reduced through fiscal management. Advances are subject to a borrowing base and may not exceed 50% of unpaid eligible mortgages receivable. Outstanding amounts required interest at the greater of the Bank's Base Lending Rate or 3.75% (3.75% at June 30, 2021 and 2020, respectively). The line of credit is due on demand and expires on June 30, 2022. Management intends to renew the line of credit agreement upon expiration. The line of credit is secured by substantially all assets and nine mortgage notes receivable at June 30, 2021 and 2020. There were no amounts outstanding at June 30, 2021 and 2020.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8. LONG-TERM DEBT

Construction Loan

The Organization entered into a construction loan agreement with a bank in March 2018. The loan provided for maximum borrowings of \$750,000 with a drawdown period through September 29, 2019. The construction loan agreement was modified in March 2020 to extend the maturity date to July 29, 2020. The repayment term coincides with the anticipated completion and sale of the associated development project. There were borrowings outstanding of \$300,000 at June 30, 2020. The outstanding amounts bear interest at the bank's prime rate plus 0.25% (5.25% at June 30, 2020). The loan is collateralized by a mortgage interest in a parcel of land and buildings currently under development, and pursuant to the modification agreement, there are partial releases of each moderate income unity sold in consideration of partial principal paydowns. The construction loan balance was repaid in full in July 2020.

Paycheck Protection Program

On April 20, 2020, the Organization received loan proceeds of \$94,400 under the Paycheck Protection Program ("PPP"). The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels. At least 60% of the loan proceeds must be spent on payroll costs, as defined by the PPP for the loan forgiveness.

The PPP loan matures two years from the date of first disbursement of proceeds to the Organization (the "PPP Loan Date") and accrues interest at a fixed rate of 1%. Payments are deferred for the first ten months and payable in equal consecutive monthly installments of principal and interest commencing on the ten-month anniversary of the PPP Loan Date.

U.S GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allow for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Organization determined it most appropriate to account for the PPP loan proceeds under the conditional contribution model within ASC 958-605. Under the conditional contribution model, the Organization recognizes the proceeds received as a refundable advance, and subsequently recognizes grant revenue as the conditions are met. Conditions are deemed to be met as the allowable expenses are incurred. The Organization deemed the conditional contribution model to be the most appropriate accounting policy for this arrangement based on the nature of the PPP loan program. The Organization recognized \$94,400 in grant revenue under the PPP loan program during the year ended June 30, 2020, which is included in grants and contract revenue in the 2020 statement of activities.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 8. LONG-TERM DEBT (CONTINUED)

Paycheck Protection Program (continued)

The Company received approval from the SBA for \$94,400 of PPP loan forgiveness during the year ended June 30, 2021. If it is determined that the Organization was not eligible to receive the PPP Loan or that the Organization has not adequately complied with the rules, regulations, and procedures applicable to the SBA's Loan Program, the the Organization could be subject to penalties and could be required to repay the amounts previously forgiven.

NOTE 9. NET ASSETS

Net assets with donor restrictions were \$473,377 and \$350,552, at June 30, 2021 and 2020, respectively and consist of contributions restricted for construction in various locations.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors for the years ended June 30, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
Construction of homes - specific locations	\$ 390,431	\$ 718,249
HUD salary grant	<u>50,000</u>	<u>-</u>
	<u>\$ 440,431</u>	<u>\$ 718,249</u>

NOTE 10. BOARD DESIGNATED FUND

During 2021, the board approved the establishment of a board designated fund. The purpose of the fund is to segregate funds for future operational needs. In April, 2021 the board approved a designation of \$200,000 from its net assets without donor restrictions to the board designated fund.

NOTE 11. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES

Operating Leases

The Organization leases its office space through a lease agreement expiring in May 2022. During 2020, monthly payments under this lease ranged from \$6,450 to \$6,650. Under the terms of the lease agreement, the Organization is subject to an annual increase in base rent of \$2,400.

The Organization leased its ReStore space through a lease agreement expiring in September 2021. In December 2019, the Organization decided to close the ReStore and has classified the rent expense for the year ended June 30, 2020 of \$356,370 in discontinued operations in the statement of activities. The Organization terminated the lease agreement as of December 31, 2020, the amounts are included in discontinued operations in the statement of activities (Note 3).

The Organization also leases various equipment under operating leases expiring at various dates through April, 2023. For the years ended June 30, 2021 and 2020, total rent expense was \$93,874 and \$87,108, respectively.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**NOTE 11. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES
(CONTINUED)**

Operating Leases (continued)

Future minimum lease payments under operating leases, by year and in the aggregate at June 30, 2021, consist of the following:

<u>Year Ending June 30:</u>	<u>Amount</u>
2022	\$ 76,319
2023	<u>2,641</u>
	<u>\$ 78,960</u>

Commitments

HFHI requires affiliates to pay an annual U.S. Stewardship and Organizational Sustainability Initiative ("US-SOSI") fee. The amount of the annual fee is determined by the population within the affiliate's approved Geographic Service Area. The purpose of the fee is to create a sustainable revenue stream to help finance a portion of operational costs incurred by HFHI to support the work of U.S. affiliates. The amount of the US-SOSI fee is fixed through June 30, 2021, subject to periodic review and was \$15,000 for the years ended June 30, 2021 and 2020.

The Organization pays an additional tithe to HFHI based on homes sold. For the years ended June 30, 2021 and 2020, the Organization paid total fees of \$8,000 and \$24,000, respectively.

COVID-19

In March of 2020, the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern." In accordance with state mandates regarding the closure of certain business and capacity restrictions, the Organization was required to temporarily close its facilities, restrict access to certain job sites and postpone various events or move them to a remote environment. The extent to which COVID-19 will impact operations of the Organization in the future will depend on subsequent developments which are uncertain and cannot be reasonably estimated at this time, including the duration of the outbreak. No adjustments have been made to the financial statements as a result of this uncertainty.

NOTE 12. RETIREMENT PLAN

The Organization maintained a defined contribution 401(k) retirement plan. All full time employees were eligible to participate in the plan. The Organization did not make any matching employer contributions to the plan. The Organization terminated the retirement plan as of February 2021 and amounts were distributed to participants in accordance with the plan document.