

SOUTH SHORE HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 17

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of South Shore Habitat for Humanity, Inc., (the "Organization"), which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Shore Habitat for Humanity, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 these 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 misstatements, 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 South Shore Habitat for Humanity, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

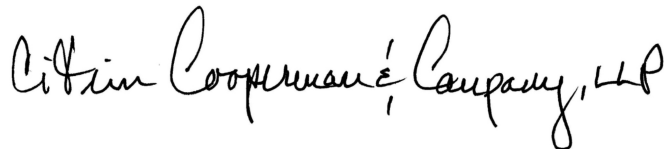
Auditor's Responsibility for the Audit of the Financial Statements

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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 South Shore Habitat for Humanity, Inc.'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 South Shore Habitat for Humanity, Inc.'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.



Braintree, Massachusetts
December 19, 2023

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,318,541	\$ 1,019,170
Restricted cash	11,700	-
Current portion of mortgages receivable	88,016	108,786
Prepaid expenses and other current assets	13,017	2,977
Construction in progress, net	<u>345,147</u>	<u>74,035</u>
Total current assets	<u>1,776,421</u>	<u>1,204,968</u>
Property and equipment, net	<u>16,774</u>	<u>17,564</u>
Other assets:		
Mortgages receivable, net of current portion	252,277	382,354
Operating lease right-of-use asset	192,872	240,217
Other assets	<u>4,625</u>	<u>4,625</u>
Total other assets	<u>449,774</u>	<u>627,196</u>
TOTAL ASSETS	<u>\$ 2,242,969</u>	<u>\$ 1,849,728</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of operating lease liability	\$ 47,058	\$ 44,395
Deferred revenue	4,400	5,250
Deposit	11,700	-
Accounts payable and accrued expenses	<u>46,681</u>	<u>53,628</u>
Total current liabilities	109,839	103,273
Long term liabilities:		
Operating lease liability, net of current portion	<u>143,568</u>	<u>190,626</u>
Total liabilities	<u>253,407</u>	<u>293,899</u>
Net assets:		
Without donor restrictions	1,236,437	1,094,013
With donor restrictions	<u>753,125</u>	<u>461,816</u>
Total net assets	<u>1,989,562</u>	<u>1,555,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,242,969</u>	<u>\$ 1,849,728</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, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Sales of homes	\$ -	\$ -	\$ -	\$ 205,000	\$ -	\$ 205,000
In-kind donations:						
Land	-	-	-	-	266,250	266,250
Services and construction materials	-	15,468	15,468	-	82,991	82,991
Donations:						
Individual	254,974	101,969	356,943	212,541	92,736	305,277
Corporate	5,598	-	5,598	4,000	-	4,000
Congregation	6,000	-	6,000	4,170	-	4,170
Grants	325,276	204,825	530,101	156,500	169,320	325,820
Special events	211,776	-	211,776	282,440	-	282,440
Mortgage discount amortization	85,716	-	85,716	65,972	-	65,972
Net gain on sale of mortgages	110,716	-	110,716	81,769	-	81,769
Other income, net	11,613	-	11,613	41,436	-	41,436
Net assets released from restrictions	<u>30,953</u>	<u>(30,953)</u>	<u>-</u>	<u>622,858</u>	<u>(622,858)</u>	<u>-</u>
Total revenues and other support	<u>1,042,622</u>	<u>291,309</u>	<u>1,333,931</u>	<u>1,676,686</u>	<u>(11,561)</u>	<u>1,665,125</u>
Expenses:						
Program services:						
Cost of homes sold	-	-	-	623,723	-	623,723
Mortgage discount	-	-	-	123,480	-	123,480
Tithe to Habitat for Humanity International	20,000	-	20,000	23,500	-	23,500
Other	<u>559,411</u>	<u>-</u>	<u>559,411</u>	<u>485,181</u>	<u>-</u>	<u>485,181</u>
Total program services expenses	<u>579,411</u>	<u>-</u>	<u>579,411</u>	<u>1,255,884</u>	<u>-</u>	<u>1,255,884</u>
Supporting services:						
Fundraising	203,557	-	203,557	192,899	-	192,899
General and administrative	<u>117,230</u>	<u>-</u>	<u>117,230</u>	<u>98,891</u>	<u>-</u>	<u>98,891</u>
Total supporting services expenses	<u>320,787</u>	<u>-</u>	<u>320,787</u>	<u>291,790</u>	<u>-</u>	<u>291,790</u>
Total expenses	<u>900,198</u>	<u>-</u>	<u>900,198</u>	<u>1,547,674</u>	<u>-</u>	<u>1,547,674</u>
Changes in net assets	142,424	291,309	433,733	129,012	(11,561)	117,451
Net assets - beginning	<u>1,094,013</u>	<u>461,816</u>	<u>1,555,829</u>	<u>965,001</u>	<u>473,377</u>	<u>1,438,378</u>
NET ASSETS - ENDING	<u>\$ 1,236,437</u>	<u>\$ 753,125</u>	<u>\$ 1,989,562</u>	<u>\$ 1,094,013</u>	<u>\$ 461,816</u>	<u>\$ 1,555,829</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023 (WITH COMPARATIVE TOTALS FOR 2022)

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>2023 Total</u>	<u>2022 Comparative Totals</u>
Salaries and benefits	\$ 273,796	\$ 113,731	\$ 34,592	\$ 422,119	\$ 428,940
Accrued loss on construction in progress	147,326	-	-	147,326	-
Professional fees	-	-	61,391	61,391	29,875
Rent	39,619	10,037	3,169	52,825	89,579
Construction	38,631	-	-	38,631	15,051
Gala costs	-	35,975	-	35,975	69,975
Computer maintenance fees	15,304	3,929	1,448	20,681	27,336
Tithe	20,000	-	-	20,000	23,500
Golf tournament costs	-	16,470	-	16,470	13,942
Dues and subscriptions	-	16,039	-	16,039	4,472
Critical home repair program	15,468	-	-	15,468	-
Miscellaneous	5,136	68	5,030	10,234	3,909
Supplies	7,161	-	1,903	9,064	21,568
Utilities	5,365	1,359	429	7,153	16,210
Telephone	4,427	1,137	419	5,983	6,860
Bank charges	-	-	5,289	5,289	4,146
Postage	-	3,709	1,230	4,939	4,934
Ground maintenance	2,675	678	214	3,567	28,861
Travel	1,025	275	1,989	3,289	4,884
Insurance	2,885	-	-	2,885	-
Depreciation	593	150	47	790	3,161
Conference and seminars	-	-	80	80	1,347
Ride for Habitat costs	-	-	-	-	1,921
Mortgage discount	-	-	-	-	123,480
Cost of homes sold	-	-	-	-	623,723
TOTAL EXPENSES	<u>\$ 579,411</u>	<u>\$ 203,557</u>	<u>\$ 117,230</u>	<u>\$ 900,198</u>	<u>\$ 1,547,674</u>

See accompanying notes to financial statements.

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

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of homes sold	\$ 623,723	\$ -	\$ -	\$ 623,723
Salaries and benefits	302,044	80,829	46,067	428,940
Mortgage discount	123,480	-	-	123,480
Rent	78,829	7,166	3,584	89,579
Gala costs	-	69,975	-	69,975
Professional fees	-	-	29,875	29,875
Ground maintenance	25,398	2,309	1,154	28,861
Computer maintenance fees	20,229	5,194	1,913	27,336
Tithe	23,500	-	-	23,500
Supplies	18,932	-	2,636	21,568
Utilities	14,265	1,297	648	16,210
Construction	15,051	-	-	15,051
Golf tournament costs	-	13,942	-	13,942
Telephone	5,076	1,303	481	6,860
Postage	25	3,732	1,177	4,934
Travel	1,209	104	3,571	4,884
Dues and subscriptions	-	4,472	-	4,472
Bank charges	-	-	4,146	4,146
Miscellaneous	1,341	402	2,166	3,909
Depreciation	2,782	253	126	3,161
Ride for Habitat costs	-	1,921	-	1,921
Conference and seminars	-	-	1,347	1,347
TOTAL EXPENSES	<u>\$ 1,255,884</u>	<u>\$ 192,899</u>	<u>\$ 98,891</u>	<u>\$ 1,547,674</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating activities:		
Change in net assets	\$ 433,733	\$ 117,451
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	790	3,161
Mortgage discount	-	123,480
Mortgage discount amortization	(85,716)	(65,972)
Non-cash operating lease expense	47,345	7,783
Proceeds from sale of mortgages	190,381	157,250
Gain on sale of mortgages	(110,690)	(81,769)
Accrued loss on construction in progress	147,326	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Other assets	-	5,175
Mortgages receivable	156,872	(86,332)
Prepaid expenses and other current assets	(10,040)	2,813
Construction in progress	(418,438)	(1,204)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,947)	9,351
Deposit	11,700	-
Operating lease liability	(44,395)	(12,979)
Deferred revenue	(850)	(25,850)
Net cash provided by operations	<u>311,071</u>	<u>152,358</u>
Investing activities:		
Acquisition of property and equipment	<u>-</u>	<u>(20,725)</u>
Net increase in cash, cash equivalents and restricted cash	311,071	131,633
Cash, cash equivalents and restricted cash - beginning	<u>1,019,170</u>	<u>887,537</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,330,241</u>	<u>\$ 1,019,170</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1. ORGANIZATION

South Shore Habitat for Humanity, Inc. (the "Organization") is a Massachusetts faith-based, nonprofit organization dedicated to building simple, decent and affordable 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, 2023, the Organization did not sell any homes. At June 30, 2023, two homes were substantially complete but were formally sold in September 2023, subsequent to year-end. The Organization sold one home during the year ended June 30, 2022. At June 30, 2023 and 2022, there were five and four outstanding commitments to build, respectively. In addition, during the year ended June 30, 2023, the Organization started a new program called Critical Home Repair to assist qualified seniors, veterans and families who are struggling to maintain their home.

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, 2023 and 2022, there were no donor restrictions perpetual in nature.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, and construction 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.

The Organization recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("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
JUNE 30, 2023 AND 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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. During the years ended June 30, 2023 and 2022, the Organization recognized a gain from the sale of one mortgage each year of \$110,690 and \$81,769, respectively, and is presented as a component of revenue and other support on the 2023 and 2022, 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 affordable 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.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Mortgages Receivable

The Organization directly finances properties for buyers. The mortgages are non-interest bearing and therefore, are presented net of a discount (Note 4). 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, 2023 and 2022, were \$326,886 and \$241,169, 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
JUNE 30, 2023 AND 2022

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, 2023 and 2022, the allowance for doubtful accounts was \$16,237.

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.

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 \$178,491 and \$31,165 was recorded at June 30, 2023 and 2022, respectively.

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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets, including the Organization's right-of-use assets, in accordance with the FASB ASC Topic *Property, Plant and Equipment*. The Topic requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. At June 30, 2023 and 2022, the Organization has determined that no long-lived assets are impaired.

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.

Leases

The Organization has an operating lease agreement for certain office space under a term of five years, with an option to extend for an additional five-year period. The Organization determines if an arrangement is a lease at the inception of the contract. At the lease commencement date, each lease is evaluated to determine whether it will be classified as an operating or finance lease. For leases with a lease term of twelve months or less (a "short-term" lease), any fixed lease payment is recognized on a straight-line basis over such term, and are not recognized on the statement of financial position.

Lease terms include the noncancellable portion of the underlying lease along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options. The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. The Organization uses the risk-free discount rate when the rate implicit in the lease is not readily determinable at the commencement date in determining the present value of lease payments.

Leases may contain fixed and determinable escalation clauses for which the Organization recognizes rental expense under these leases on the straight-line basis over the lease terms, which includes the period of time from when the Organization takes possession of the leased space. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Recently Issued but not Effective Accounting Pronouncements

Credit Losses - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - *Credit Losses* (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 is effective for nonpublic companies for fiscal years beginning after December 15, 2022, including interim periods within those annual reporting periods, with early adoption permitted. The Organization is currently evaluating the impact of the new standard on its financial statements and related disclosures.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassification adjustments had no effect on the Company's previously reported change in net assets.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, 2023, through the date which the financial statements were available to be issued, December 19, 2023, and has determined that other than as disclosed in Note 6, there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

NOTE 3. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2023:

Cash and cash equivalents	\$ 1,318,541
Current portion of mortgages receivable	<u>88,016</u>
	1,406,557
Less: net assets with donor restrictions	(753,125)
Less: board designated net assets	<u>(293,880)</u>
	359,552
Add: net assets with restrictions to be met in less than a year	<u>603,470</u>
Financial assets available to meet general expenditures over the next 12 months	<u><u>\$ 963,022</u></u>

The Organization has certain donor-restricted net assets totaling \$603,470 that are available for general expenditure within one year of June 30, 2023, 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. Financial assets available to meet general expenditures over the next 12 months noted above do not include the balance of construction in progress of \$345,147. 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 4. 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 7.38% to 8.14%. For the year ended June 30, 2022, newly issued mortgages receivable were discounted by 7.49%. There were no issued mortgages for the year ended June 30, 2023.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4. MORTGAGES RECEIVABLE (CONTINUED)

The mortgages receivable at June 30 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total mortgages receivable	\$ 825,849	\$ 1,183,148	\$ 1,281,816
Less: unamortized discount	(469,319)	(675,771)	(727,782)
Less: allowance for doubtful accounts	<u>(16,237)</u>	<u>(16,237)</u>	<u>(16,237)</u>
	340,293	491,140	537,797
Less: current portion of mortgages receivable	<u>(88,016)</u>	<u>(108,786)</u>	<u>(116,952)</u>
	<u>\$ 252,277</u>	<u>\$ 382,354</u>	<u>\$ 420,845</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>
2024	\$ 88,016
2025	79,917
2026	70,734
2027	52,169
2028	37,928
Thereafter	<u>497,085</u>
	<u>\$ 825,849</u>

NOTE 5. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Warehouse equipment and vehicles	\$ 28,858	\$ 28,858
Office equipment	20,725	20,725
Computer equipment	12,638	12,638
Telephone equipment	<u>5,492</u>	<u>5,492</u>
Total cost	67,713	67,713
Less: accumulated depreciation	<u>50,939</u>	<u>50,149</u>
Property and equipment, net	<u>\$ 16,774</u>	<u>\$ 17,564</u>

NOTE 6. DEMAND NOTE PAYABLE

The Organization had a \$287,402 line of credit agreement with a bank in 2022, which expired on June 30, 2023, and was not renewed. Advances were subject to a borrowing base and could 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% (8.25% and 4.75% at June 30, 2023 and 2022, respectively). The line of credit was due on demand and was secured by substantially all assets and mortgage notes receivable at June 30, 2023 and 2022. There were no amounts outstanding at June 30, 2023 and 2022.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7. COMMITMENTS AND CONTINGENCIES

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, 2023, subject to periodic review, and was \$15,000 for the years ended June 30, 2023 and 2022.

Leases

The Organization leases office space under a five year lease, with an option to renew for an additional five year term. The exercise of the lease renewal option is at the Organization's sole discretion. The depreciable life of assets is limited by the expected lease term. Operating lease expense under the lease agreement was \$52,825 and \$16,429 for the years ended June 30, 2023 and 2022, respectively.

The Company also had a short-term rental agreement which expired in 2022, and did not meet the criteria of ASC 842. Short-term rental costs were \$73,150 for the year ended June 30, 2022.

Information related to the Organization's operating lease liabilities is as follows:

	<u>2023</u>	<u>2022</u>
Operating cash flows from operating lease	\$ <u>49,875</u>	\$ <u>12,375</u>
Weighted-average remaining lease term (years)	3.75	4.75
Weighted-average discount rate (%)	2.55 %	3 %

As of June 30, 2023, the Organization's future minimum payments, including interest on operating lease liability are as follows:

<u>Years ending December 31:</u>	<u>Amount</u>
2024	\$ 51,375
2025	52,875
2026	54,375
2027	<u>41,625</u>
Total lease payments	200,250
Less: amount of lease payments representing interest	<u>(9,624)</u>
Present value of lease liability	190,626
Less: current portion	<u>(47,058)</u>
	<u>\$ 143,568</u>

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8. NET ASSETS

Net assets with donor restrictions were \$753,125 and \$461,816 at June 30, 2023 and 2022, respectively, and consist of contributions restricted for construction and critical home repairs in various locations.

Net assets of \$30,953 and \$622,858 specified as restricted for the construction of homes at specific locations 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, 2023 and 2022, respectively.

NOTE 9. BOARD DESIGNATED FUND

During 2021, the board approved the establishment of a board designated Reserve Fund 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 Reserve Fund. In 2023, the board further established an additional board designated fund, the Future Construction Fund, which will be designated for home builds. Additionally in 2023, the board voted to designate 40% of the proceeds from a home sale or the sale of a mortgage to both the board designated Reserve Fund and Future Construction Fund. The board will vote on an as-needed basis to determine the release of funds. During the year ended June 30, 2023, the Reserve Fund and the Future Construction Fund were each increased by an allocation of proceeds \$43,869. During the year ended June 30, 2023, no amounts were released from the board designated funds. At June 30, 2023 and 2022, the board designated net assets without donor restrictions totaled \$293,880 and \$200,109, respectively.