

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**SOUTH SHORE HABITAT FOR HUMANITY, INC.  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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**CITRIN COOPERMAN®**

Accountants and Advisors

## 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, 2019 and 2018, 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 audit 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, 2019 and 2018, 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 & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts  
November 18, 2019

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2019 AND 2018**

	<b><u>ASSETS</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
Current assets:		
Cash and cash equivalents	\$ 41,938	\$ 172,900
Current portion of mortgages receivable	173,593	174,039
Contributions receivable	-	72,100
Prepaid expenses and other current assets	38,435	50,543
Inventory and uninstalled materials	98,050	98,271
Construction in progress, net	<u>1,112,529</u>	<u>221,359</u>
Total current assets	<u>1,464,545</u>	<u>789,212</u>
Property and equipment, net	<u>108,241</u>	<u>168,215</u>
Other assets:		
Mortgages receivable, net of current portion	838,668	835,506
Other assets	<u>32,400</u>	<u>32,400</u>
Total other assets	<u>871,068</u>	<u>867,906</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,443,854</u></b>	<b><u>\$ 1,825,333</u></b>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Line of credit	\$ 340,000	\$ 300,000
Construction loan	688,600	85,100
Deferred revenue	3,900	-
Accounts payable and accrued expenses	<u>145,804</u>	<u>214,590</u>
Total liabilities	<u>1,178,304</u>	<u>599,690</u>
Net assets:		
Without donor restrictions	691,188	886,089
With donor restrictions	<u>574,362</u>	<u>339,554</u>
Total net assets	<u>1,265,550</u>	<u>1,225,643</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,443,854</u></b>	<b><u>\$ 1,825,333</u></b>

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, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Sales of homes	\$ 160,000	\$ -	\$ 160,000	\$ 410,900	\$ -	\$ 410,900
In-kind donations:						
Land	-	55,033	55,033	-	13,000	13,000
Services and construction materials	6,168	23,097	29,265	4,204	27,324	31,528
ReStore materials	445,694	-	445,694	337,911	-	337,911
Donations:						
Individual	136,901	-	136,901	141,292	-	141,292
Corporate	68,783	-	68,783	77,242	-	77,242
Congregation	10,541	-	10,541	10,105	-	10,105
ReStore sales	479,822	-	479,822	393,234	-	393,234
Grants	153,025	469,572	622,597	205,491	357,329	562,820
Special events	411,755	-	411,755	312,128	-	312,128
Mortgage discount amortization	101,459	-	101,459	97,326	-	97,326
Net assets released from restrictions	<u>312,894</u>	<u>(312,894)</u>	<u>-</u>	<u>219,076</u>	<u>(219,076)</u>	<u>-</u>
Total revenues and other support	<u>2,287,042</u>	<u>234,808</u>	<u>2,521,850</u>	<u>2,208,909</u>	<u>178,577</u>	<u>2,387,486</u>
Expenses:						
Program services:						
Homeownership program:						
Cost of homes sold	267,853	-	267,853	459,265	-	459,265
Mortgage discount	97,482	-	97,482	112,006	-	112,006
Tithe to Habitat for Humanity International	19,500	-	19,500	22,752	-	22,752
Other	<u>487,795</u>	<u>-</u>	<u>487,795</u>	<u>562,412</u>	<u>-</u>	<u>562,412</u>
Total homeownership program	872,630	-	872,630	1,156,435	-	1,156,435
Restore	<u>1,168,862</u>	<u>-</u>	<u>1,168,862</u>	<u>1,000,340</u>	<u>-</u>	<u>1,000,340</u>
Total program services expenses	<u>2,041,492</u>	<u>-</u>	<u>2,041,492</u>	<u>2,156,775</u>	<u>-</u>	<u>2,156,775</u>
Supporting services:						
Fundraising	371,172	-	371,172	336,722	-	336,722
General and administrative	<u>69,279</u>	<u>-</u>	<u>69,279</u>	<u>62,955</u>	<u>-</u>	<u>62,955</u>
Total supporting services expenses	<u>440,451</u>	<u>-</u>	<u>440,451</u>	<u>399,677</u>	<u>-</u>	<u>399,677</u>
Total expenses	<u>2,481,943</u>	<u>-</u>	<u>2,481,943</u>	<u>2,556,452</u>	<u>-</u>	<u>2,556,452</u>
Changes in net assets	(194,901)	234,808	39,907	(347,543)	178,577	(168,966)
Net assets - beginning	<u>886,089</u>	<u>339,554</u>	<u>1,225,643</u>	<u>1,233,632</u>	<u>160,977</u>	<u>1,394,609</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 691,188</u>	<u>\$ 574,362</u>	<u>\$ 1,265,550</u>	<u>\$ 886,089</u>	<u>\$ 339,554</u>	<u>\$ 1,225,643</u>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)**

	<u>Homeownership Program</u>	<u>ReStore</u>	<u>Total Program</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>2019 Total</u>	<u>2018 Comparative Totals</u>
Salaries and benefits	\$ 322,618	\$ 253,844	\$ 576,462	\$ 250,781	\$ 27,546	\$ 854,789	\$ 908,896
Cost of goods sold - ReStore	-	451,354	451,354	-	-	451,354	385,668
Rent	81,985	221,293	303,278	5,347	1,782	310,407	292,501
Cost of homes sold	267,853	-	267,853	-	-	267,853	459,265
Equipment rental	-	103,615	103,615	-	-	103,615	29,713
Mortgage discount	97,482	-	97,482	-	-	97,482	112,006
Depreciation	4,663	54,905	59,568	304	102	59,974	62,963
Gala costs	-	-	-	57,365	-	57,365	47,985
Utilities	7,926	38,723	46,649	517	172	47,338	31,673
Interest	19,345	-	19,345	-	-	19,345	11,422
Golf tournament costs	-	-	-	24,605	-	24,605	23,110
Supplies	15,903	4,026	19,929	696	3,936	24,561	6,506
Computer maintenance fees	9,090	7,525	16,615	5,955	627	23,197	19,554
Insurance	2,225	6,622	8,847	-	-	8,847	18,160
Miscellaneous	1,298	15,392	16,690	1,414	4,118	22,222	15,544
Professional fees	-	-	-	-	21,519	21,519	18,019
Tithe	19,500	-	19,500	-	-	19,500	22,752
Construction	17,665	-	17,665	-	-	17,665	6,077
Ground maintenance	15,310	805	16,115	999	333	17,447	13,029
Telephone	5,043	3,760	8,803	3,304	347	12,454	12,202
Postage	378	755	1,133	6,394	1,606	9,133	9,934
Ride for Habitat costs	-	-	-	7,846	-	7,846	2,701
Travel	2,974	329	3,303	2,039	1,231	6,573	8,754
Advertising	-	6,321	6,321	-	-	6,321	28,081
Dues and subscriptions	-	3,600	3,600	2,348	-	5,948	7,314
Bank charges	-	-	-	-	5,840	5,840	3,956
Printing	-	-	-	773	-	773	589
Conference and seminars	-	-	-	485	120	605	10,416
Warehouse	-	93	93	-	-	93	3,070
Holding costs	-	-	-	-	-	-	210
Inventory reserve	-	(4,100)	(4,100)	-	-	(4,100)	(16,140)
Bad debt expense (recovery)	(18,628)	-	(18,628)	-	-	(18,628)	522
<b>TOTAL EXPENSES</b>	<u>\$ 872,630</u>	<u>\$ 1,168,862</u>	<u>\$ 2,041,492</u>	<u>\$ 371,172</u>	<u>\$ 69,279</u>	<u>\$ 2,481,943</u>	<u>\$ 2,556,452</u>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Homeownership Program</u>	<u>ReStore</u>	<u>Total Program</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 376,843	\$ 270,493	\$ 647,336	\$ 234,615	\$ 26,945	\$ 908,896
Cost of homes sold	459,265	-	459,265	-	-	459,265
Cost of goods sold - ReStore	-	385,668	385,668	-	-	385,668
Rent	82,138	205,165	287,303	3,350	1,848	292,501
Mortgage discount	112,006	-	112,006	-	-	112,006
Depreciation	6,652	54,905	61,557	1,219	187	62,963
Gala costs	-	-	-	47,985	-	47,985
Utilities	8,833	22,281	31,114	360	199	31,673
Equipment rental	-	29,713	29,713	-	-	29,713
Advertising	21,351	6,730	28,081	-	-	28,081
Golf tournament costs	-	-	-	23,110	-	23,110
Tithe	22,752	-	22,752	-	-	22,752
Computer maintenance fees	7,382	7,484	14,866	3,459	1,229	19,554
Insurance	11,706	6,454	18,160	-	-	18,160
Professional fees	-	-	-	-	18,019	18,019
Miscellaneous	3,439	9,281	12,720	1,115	1,709	15,544
Ground maintenance	10,560	1,800	12,360	431	238	13,029
Telephone	5,574	3,988	9,562	2,288	352	12,202
Interest	11,422	-	11,422	-	-	11,422
Conference and seminars	4,315	2,937	7,252	578	2,586	10,416
Postage	334	30	364	8,423	1,147	9,934
Travel	4,888	458	5,346	1,859	1,549	8,754
Dues and subscriptions	-	3,725	3,725	3,589	-	7,314
Supplies	166	2,298	2,464	1,051	2,991	6,506
Construction	6,077	-	6,077	-	-	6,077
Bank charges	-	-	-	-	3,956	3,956
Warehouse	-	3,070	3,070	-	-	3,070
Ride for Habitat costs	-	-	-	2,701	-	2,701
Printing	-	-	-	589	-	589
Bad debt expense	522	-	522	-	-	522
Holding costs	210	-	210	-	-	210
Inventory reserve	-	(16,140)	(16,140)	-	-	(16,140)
<b>TOTAL EXPENSES</b>	<u>\$ 1,156,435</u>	<u>\$ 1,000,340</u>	<u>\$ 2,156,775</u>	<u>\$ 336,722</u>	<u>\$ 62,955</u>	<u>\$ 2,556,452</u>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Operating activities:		
Changes in net assets	\$ 39,907	\$ (168,966)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense	59,974	62,963
Mortgage discount	97,482	112,006
Mortgage discount amortization	(101,459)	(97,326)
Bad debts (recovery)	(18,628)	522
Changes in assets and liabilities:		
(Increase) decrease in:		
Mortgages receivable	19,889	(2,126)
Contributions receivable	72,100	(30,845)
Property held for sale	-	147,786
Prepaid expenses and other current assets	12,108	858
Uninstalled materials	221	25,042
Construction in progress	(891,170)	(192,030)
Increase (decrease) in:		
Accounts payable and accrued expenses	(68,786)	98,394
Deferred revenue	<u>3,900</u>	<u>-</u>
Net cash used in operating activities	<u>(774,462)</u>	<u>(43,722)</u>
Financing activities:		
Net proceeds from line of credit	40,000	85,000
Proceeds from borrowings from long-term debt	<u>603,500</u>	<u>85,100</u>
Net cash provided by financing activities	<u>643,500</u>	<u>170,100</u>
Net increase (decrease) in cash and cash equivalents	(130,962)	126,378
Cash and cash equivalents - beginning	<u>172,900</u>	<u>46,522</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 41,938</u></b>	<b><u>\$ 172,900</u></b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 19,345</u>	<u>\$ 11,422</u>

See accompanying notes to financial statements.



**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**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 years ended June 30, 2019 and 2018, the Organization sold one and two homes, respectively. At June 30, 2019 and 2018, there were eight and nine outstanding commitments to build, respectively.

In June 2016, the Organization opened the Habitat for Humanity ReStore (the "ReStore") in Hanover, Massachusetts. The ReStore concept started when Habitat affiliates began to receive donations of building materials and household goods that donors thought could be used in Habitat homes. Since donations did not always meet home specifications, these items are sold to the public and proceeds are used to cover the costs of building homes. The ReStore is a retail business that accepts donations of new and gently-used building materials, furniture, appliances, kitchen cabinets and housewares and resells them to the public at deeply discounted prices through a retail storefront warehouse. ReStores help to protect the environment by keeping material out of landfills, and provide a low-cost outlet for home improvement materials, making home renovations and improvements more affordable. The proceeds from the ReStore are used to support the Organization in its mission to build homes, communities and hope.

**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 ("US 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 Accounting Standards Codification ("FASB 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. At June 30, 2019 and 2018, there were no board designated net assets.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial Statement Presentation (continued)

*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, 2019 and 2018, there were no donor restrictions perpetual in nature.

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.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the pledge 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 of 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.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Use of 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.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents include money market funds that have no withdrawal restrictions.

Mortgages Receivable

The Organization directly finances properties for buyers and the mortgage amounts 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, 2019 and 2018 were \$51,018 and \$220,219, respectively. Management assists homebuyers in maintaining the current payment schedule. Recognition of mortgage discount amortization is suspended upon completion of foreclosure proceedings when title to the property has been obtained by the Organization.

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, 2019 and 2018, the allowance for doubtful accounts was \$2,551 and \$21,179, 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.

Contributions Receivable

Contributions receivable are expected to be collected within one year and are recorded at net realizable value. The Organization had no contributions receivable at June 30, 2019. At June 30, 2018 the contributions receivable was \$72,100.

The determination of the collectibility of contributions receivable is based on management estimates. While certain balances may not be collected within the prescribed period, management believes that amounts are fully collectible and no allowance is necessary. No contributions receivable were written off during 2019 and 2018.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventory and Uninstalled Materials

The Organization's inventory consists primarily of donated materials to be sold in the ReStore, which are 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. For the years ended June 30, 2019 and 2018, inventory was valued at \$45,814 and \$44,135, respectively, which is net of a reserve for future markdowns of inventory held. The reserve for inventory markdowns was \$11,800 and \$15,900 at June 30, 2019 and 2018, respectively.

Also included in the Organization's inventory is uninstalled construction materials which are stated at the lower of cost or market. For the years ended June 30, 2019 and 2018, uninstalled construction materials are valued at \$52,236 and \$54,136, respectively.

Construction in Progress

Construction in progress includes costs related to the acquisition and development of land and other costs incurred while building a home. At June 30, 2019, overhead costs related to the construction of homes in progress totaling approximately \$102,000 were capitalized to construction in progress which includes costs incurred to date on five homes. There were no capitalized construction costs at June 30, 2018 as these amounts were not material to the financial statements. 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. The excess of costs over the estimated sales price are included in an allowance for excess construction costs. Management has determined that no allowance is necessary at June 30, 2019; an allowance for excess construction costs of \$53,041 was recorded at June 30, 2018.

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**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue Recognition

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.

Revenue from the ReStore's sale of merchandise is recorded at the point of sale.

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 which is 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 \$6,321 and \$28,081 for the years ended June 30, 2019 and 2018, respectively.

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**  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* ("ASU 2016-14"). ASU 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The Organization has adjusted the presentation of these financial statements accordingly and ASU 2016-14 has been retrospectively applied to all periods presented.

Recently Issued But Not Yet Effective Accounting Pronouncements

*Contributions* - In June 2018, the FASB issued ASU ("Accounting Standard Update") No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional. This ASU is effective for years beginning after December 15, 2018. The Organization is currently completing its initial assessment and evaluation of the impact that ASU 2018-08 will have on its financial statements and related disclosures.

*Revenue* - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"), as amended (commonly referred to as "ASC 606"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 replaces most existing revenue recognition guidance in US GAAP, including industry specific guidance, when it becomes effective. For annual reporting periods, this standard is effective for the Organization on July 1, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. The Organization is currently completing its initial assessment and evaluation of the impact that ASU 2014-09 will have on its financial statements and related disclosures. The Organization expects, at a minimum, the adoption will result in expanded disclosures that will enable users to better understand the nature, amount, timing, and uncertainty, if any, of revenues and cash flows arising from contracts with customers.

*Leases* - In February 2016, the 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 statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2020, with early adoption permitted. The Organization is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

Subsequent Events

The Organization has evaluated all events subsequent to the statement of financial position date of June 30, 2019, through the date which the financial statements were available to be issued, November 18, 2019, and has determined that there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
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**NOTE 3. AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets as of June 30, 2019:

Cash and cash equivalents	\$ 41,938
Mortgages receivable	<u>173,593</u>
Total financial assets at year end	215,531
Less financial assets with donor restrictions	<u>574,362</u>
	(358,831)
Add net assets with restrictions to be met in less than a year	<u>403,263</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 44,432</u>

The Organization has certain donor-restricted net assets totaling \$403,263 that are available for general expenditure within one year of June 30, 2019 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 \$500,000 line of credit available to meet cash flow needs, with available borrowings of \$160,000 at June 30, 2019. Financial assets available to meet general expenditures over the next twelve months noted above do not include the balance of construction in progress of \$1,070,790. The homes included in construction in progress are expected to be sold in the next fiscal year and the net proceeds 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 7.39% to 8.48%. For the years ended June 30, 2019 and 2018, newly issued mortgages receivable were discounted by 7.66% and 7.57%, respectively.

The mortgages receivable at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Total mortgages receivable	\$ 2,336,410	\$ 2,356,299
Less unamortized discount	1,321,598	1,325,575
Less allowance for doubtful accounts	<u>2,551</u>	<u>21,179</u>
	1,012,261	1,009,545
Less current portion of mortgages receivable	<u>173,593</u>	<u>174,039</u>
	<u>\$ 838,668</u>	<u>\$ 835,506</u>

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4. MORTGAGES RECEIVABLE (CONTINUED)**

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2020	\$ 173,593
2021	162,792
2022	156,427
2023	151,480
2024	142,433
Thereafter	<u>1,549,685</u>
	<u>\$ 2,336,410</u>

**NOTE 5. PROPERTY AND EQUIPMENT**

Following is a summary of property and equipment as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Leasehold improvements – ReStore	\$ 274,526	\$ 274,526
Warehouse equipment and vehicles	28,858	28,858
Computer equipment	12,638	12,638
Telephone equipment	<u>8,492</u>	<u>8,492</u>
Total cost	324,514	324,514
Less accumulated depreciation	<u>216,273</u>	<u>156,299</u>
Property and equipment, net	<u>\$ 108,241</u>	<u>\$ 168,215</u>

**NOTE 6. DEMAND NOTE PAYABLE**

The Organization has a \$500,000 line of credit. Advances are subject to a borrowing base and may not exceed 50% of unpaid eligible mortgages receivable. Outstanding amounts bear interest at the greater of the Wall Street Journal Prime Rate or 4.00% (5.25% and 5.00% at June 30, 2019 and 2018, respectively). The line of credit is due on demand and expires on January 31, 2020. It is management's intention to renew the line of credit in 2020. The line of credit is secured by substantially all assets and thirteen mortgage notes receivable. There were borrowings outstanding of \$340,000 and \$300,000 at June 30, 2019 and 2018, respectively.

**NOTE 7. LONG-TERM DEBT**

The Organization entered into a construction loan agreement with a bank in March 2018. The loan provides for maximum borrowings of \$750,000 with a drawdown period through September 29, 2019. Principal and any accrued interest will be due in full on March 29, 2020. The repayment term coincides with the anticipated completion and sale of the associated development project. The outstanding amounts bear interest at the bank's prime rate plus 0.25% (5.50% and 5.25% at June 30, 2019 and 2018, respectively). The loan is collateralized by a mortgage interest in a parcel of land and buildings currently being developed by the Organization. There were borrowings outstanding of \$688,600 and \$85,100 at June 30, 2019 and 2018, respectively.



**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
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**NOTE 8. OPERATING LEASES**

The Organization leases its office space through a lease agreement expiring in May 2022. During 2019, monthly payments under this lease ranged from \$6,050 to \$6,250. Under the terms of the lease agreement, the Organization is subject to an annual increase in base rent of \$2,400.

The Organization leases its ReStore space through a lease agreement expiring in September 2021. During 2019, monthly payments under this lease ranged from \$11,563 to \$12,313. Under the terms of the lease agreement, the Organization is subject to variable annual increases in base rent. In addition to minimum lease payments for these leases, the Organization is required to pay its pro-rata share of real estate taxes for the spaces.

The Organization also leased various equipment under operating leases expiring at various dates through December, 2020; upon expiration, these leases were terminated. For the years ended June 30, 2019 and 2018, total rent expense was \$338,351 and \$313,308, respectively.

Future minimum lease payments under operating leases by year and in the aggregate at June 30, 2019, consist of the following:

<u>Year Ending June 30:</u>	<u>Amount</u>
2020	\$ 235,895
2021	240,725
2022	<u>114,400</u>
	<u>\$ 591,020</u>

**NOTE 9. NET ASSETS**

Net assets with donor restrictions was \$574,362 and \$339,554, at June 30, 2019 and 2018, 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, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Construction of homes - specific locations	\$ 302,480	\$ 40,364
ReStore expenses	10,414	29,962
VP of Development salary	<u>-</u>	<u>148,750</u>
	<u>\$ 312,894</u>	<u>\$ 219,076</u>

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
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**NOTE 10. 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, 2019, subject to periodic review and was \$15,000 for the years ended June 30, 2019 and 2018.

The Organization pays an additional tithe to HFHI based on homes sold. For the years ended June 30, 2019 and 2018, the Organization paid total fees of \$19,500 and \$22,752, respectively.

**NOTE 11. RETIREMENT PLAN**

The Organization maintains a defined contribution 401(k) retirement plan. All full time employees are eligible to participate in the plan following. The Organization does not make any matching employer contributions to the plan.