

SOUTH SHORE HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

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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., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the 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.

Adoption of New Accounting Pronouncement

As discussed in Note 3 to the financial statements, the Organization adopted Accounting Standards Codification Topic 842, *Leases* ("ASC 842") as of July 1, 2021. Our opinion is not modified with respect to this matter.

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.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
November 7, 2022

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SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 1,019,170	\$ 887,537
Current portion of mortgages receivable	108,786	116,952
Prepaid expenses and other current assets	2,977	5,790
Construction in progress, net	<u>74,035</u>	<u>72,831</u>
Total current assets	<u>1,204,968</u>	<u>1,083,110</u>
Property and equipment, net	<u>17,564</u>	<u>-</u>
Other assets:		
Mortgages receivable, net of current portion	382,354	420,845
Operating lease right-of-use asset	240,217	-
Other assets	<u>4,625</u>	<u>9,800</u>
Total other assets	<u>627,196</u>	<u>430,645</u>
TOTAL ASSETS	<u>\$ 1,849,728</u>	<u>\$ 1,513,755</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Current portion of operating lease liability	\$ 44,395	\$ -
Deferred revenue	5,250	31,100
Accounts payable and accrued expenses	<u>53,628</u>	<u>44,277</u>
Total current liabilities	<u>103,273</u>	<u>75,377</u>
Long term liabilities		
Operating lease liability, net of current portion	<u>190,626</u>	<u>-</u>
Total liabilities	<u>293,899</u>	<u>75,377</u>
Net assets:		
Without donor restrictions	1,094,013	965,001
With donor restrictions	<u>461,816</u>	<u>473,377</u>
Total net assets	<u>1,555,829</u>	<u>1,438,378</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,849,728</u>	<u>\$ 1,513,755</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, 2022 AND 2021

	2022			2021		
	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	\$ 510,000	\$ -	\$ 510,000
In-kind donations:						
Land	-	266,250	266,250	-	61,033	61,033
Services and construction materials	-	82,991	82,991	-	100,785	100,785
Donations:						
Individual	212,541	92,736	305,277	238,654	219,438	458,092
Corporate	4,000	-	4,000	3,585	-	3,585
Congregation	4,170	-	4,170	3,050	-	3,050
Grants	156,500	169,320	325,820	164,500	182,000	346,500
Special events	282,440	-	282,440	90,581	-	90,581
Mortgage discount amortization	65,972	-	65,972	169,949	-	169,949
Net gain on sale of mortgages	81,769	-	81,769	-	-	-
Other income, net	41,436	-	41,436	1,299	-	1,299
Net assets released from restrictions	<u>622,858</u>	<u>(622,858)</u>	<u>-</u>	<u>440,431</u>	<u>(440,431)</u>	<u>-</u>
Total revenues and other support	<u>1,676,686</u>	<u>(11,561)</u>	<u>1,665,125</u>	<u>1,622,049</u>	<u>122,825</u>	<u>1,744,874</u>
Expenses:						
Program services:						
Cost of homes sold	623,723	-	623,723	619,581	-	619,581
Mortgage discount	123,480	-	123,480	109,519	-	109,519
Tithe to Habitat for Humanity International	23,500	-	23,500	8,000	-	8,000
Other	<u>485,181</u>	<u>-</u>	<u>485,181</u>	<u>417,648</u>	<u>-</u>	<u>417,648</u>
Total program services expenses	<u>1,255,884</u>	<u>-</u>	<u>1,255,884</u>	<u>1,154,748</u>	<u>-</u>	<u>1,154,748</u>
Supporting services:						
Fundraising	192,899	-	192,899	123,742	-	123,742
General and administrative	<u>98,891</u>	<u>-</u>	<u>98,891</u>	<u>92,860</u>	<u>-</u>	<u>92,860</u>
Total supporting services expenses	<u>291,790</u>	<u>-</u>	<u>291,790</u>	<u>216,602</u>	<u>-</u>	<u>216,602</u>
Total expenses	<u>1,547,674</u>	<u>-</u>	<u>1,547,674</u>	<u>1,371,350</u>	<u>-</u>	<u>1,371,350</u>
Changes in net assets from continuing operations	129,012	(11,561)	117,451	250,699	122,825	373,524
Discontinued operations - loss from operations of ReStore	-	-	-	147,636	-	147,636
Net assets - beginning	<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>
NET ASSETS - ENDING	<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>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022 (WITH COMPARATIVE TOTALS FOR 2021)

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>2022 Total</u>	<u>2021 Comparative Totals</u>
Cost of homes sold	\$ 623,723	\$ -	\$ -	\$ 623,723	\$ 619,581
Salaries and benefits	302,044	80,829	46,067	428,940	383,269
Mortgage discount	123,480	-	-	123,480	109,519
Rent	78,829	7,166	3,584	89,579	88,749
Gala costs	-	69,975	-	69,975	5,395
Professional fees	-	-	29,875	29,875	14,592
Ground maintenance	25,398	2,309	1,154	28,861	14,172
Computer maintenance fees	20,229	5,194	1,913	27,336	18,511
Tithe	23,500	-	-	23,500	8,000
Supplies	18,932	-	2,636	21,568	2,915
Utilities	14,265	1,297	648	16,210	8,643
Construction	15,051	-	-	15,051	18,300
Golf tournament costs	-	13,942	-	13,942	20,989
Telephone	5,076	1,303	481	6,860	6,948
Postage	25	3,732	1,177	4,934	6,324
Travel	1,209	104	3,571	4,884	3,593
Dues and subscriptions	-	4,472	-	4,472	2,379
Bank charges	-	-	4,146	4,146	2,979
Miscellaneous	1,341	402	2,166	3,909	31,411
Depreciation	2,782	253	126	3,161	1,607
Ride for Habitat costs	-	1,921	-	1,921	454
Conference and seminars	-	-	1,347	1,347	596
Insurance	-	-	-	-	5,560
Interest	-	-	-	-	438
Bad debt expense (recovery)	-	-	-	-	(3,574)
TOTAL EXPENSES	<u>\$ 1,255,884</u>	<u>\$ 192,899</u>	<u>\$ 98,891</u>	<u>\$ 1,547,674</u>	<u>\$ 1,371,350</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Cost of homes sold	\$ 619,581	\$ -	\$ -	\$ 619,581
Salaries and benefits	260,509	72,789	49,971	383,269
Mortgage discount	109,519	-	-	109,519
Rent	81,649	5,325	1,775	88,749
Miscellaneous	13,569	858	16,984	31,411
Golf tournament costs	-	20,989	-	20,989
Computer maintenance fees	10,736	6,664	1,111	18,511
Construction	18,300	-	-	18,300
Professional fees	-	-	14,592	14,592
Ground maintenance	13,039	850	283	14,172
Utilities	7,951	519	173	8,643
Tithe	8,000	-	-	8,000
Telephone	4,030	2,501	417	6,948
Postage	441	4,550	1,333	6,324
Insurance	5,560	-	-	5,560
Travel	1,091	159	2,343	3,593
Bank charges	-	-	2,979	2,979
Supplies	2,431	214	270	2,915
Dues and subscriptions	-	2,379	-	2,379
Depreciation	1,478	96	33	1,607
Gala costs	-	5,395	-	5,395
Conference and seminars	-	-	596	596
Ride for Habitat costs	-	454	-	454
Interest	438	-	-	438
Bad debt expense (recovery)	(3,574)	-	-	(3,574)
TOTAL EXPENSES	<u>\$ 1,154,748</u>	<u>\$ 123,742</u>	<u>\$ 92,860</u>	<u>\$ 1,371,350</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating activities:		
Continuing operations:		
Change in net assets from continuing operations	\$ 117,451	\$ 373,524
Adjustments to reconcile changes in net assets to net cash provided by continuing operating activities:		
Depreciation expense	3,161	1,607
Mortgage discount	123,480	109,519
Mortgage discount amortization	(65,972)	(169,949)
Bad debt recovery	-	(3,574)
Non-cash operating lease expense	(5,196)	-
Proceeds from sale of mortgages	157,250	-
Gain on sale of mortgages	(81,769)	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Other assets	5,175	27,500
Mortgages receivable	(86,332)	112,846
Prepaid expenses and other current assets	2,813	9,872
Uninstalled materials	-	26,700
Construction in progress	(1,204)	230,654
Increase (decrease) in:		
Accounts payable and accrued expenses	9,351	(11,357)
Deferred revenue	(25,850)	29,900
Net cash provided by continuing operations	<u>152,358</u>	<u>737,242</u>
Discontinued operations:		
Change in net assets from discontinued operations	-	147,636
Adjustments to reconcile change in net assets to net cash used in discontinued operations:		
Changes in operating assets and liabilities:		
Decrease in accounts payable and accrued expenses	-	(292,963)
Net cash used in discontinued operations	-	(145,327)
Net cash provided by operating activities	<u>152,358</u>	<u>591,915</u>
Investing activities:		
Acquisition of property and equipment	<u>(20,725)</u>	<u>-</u>
Financing activities:		
Payments on long-term debt	<u>-</u>	<u>(300,000)</u>
Net increase in cash and cash equivalents	131,633	291,915
Cash and cash equivalents - beginning	<u>887,537</u>	<u>595,622</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 1,019,170</u></u>	<u><u>\$ 887,537</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u><u>\$ -</u></u>	<u><u>\$ 438</u></u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1. ORGANIZATION

South Shore Habitat for Humanity, Inc. (the "Organization") is a Massachusetts faith-based, nonprofit organization dedicated to building simple, decent 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, 2022, the Organization sold one home. The Organization sold two homes during the year ended June 30, 2021. At June 30, 2022 and 2021, there were four and five outstanding commitments to build, respectively.

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, 2022 and 2021, there were no donor restrictions perpetual in nature.

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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (continued)

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.

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, 2022, the Organization recognized a gain from the sale of one mortgage of \$81,769, presented as a component of revenue and other support on the 2022 statement of activities.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

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.

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, 2022 and 2021 were \$241,169 and \$324,730, 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.

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, 2022 and 2021, 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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 was recorded at June 30, 2022 and 2021.

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.

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived 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, 2022 and 2021, 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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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.

Reclassifications

Certain amounts included in the 2021 financial statements have been reclassified to conform to the 2022 presentation. These reclassifications had no effect on net assets or the change in net assets.

Subsequent Events

The Organization has evaluated all events subsequent to the statement of financial position date of June 30, 2022, through the date which the financial statements were available to be issued, November 7, 2022, and has determined that other than as disclosed in Note 7, there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

NOTE 3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Leases - In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases: Topic 842* ("Topic 842"). The new standard requires all arrangements that contain a lease with a term greater than 12 months to be recognized on the balance sheet through a right-of-use asset and a lease liability and enhances disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases.

Leases...continued - The Organization elected to early adopt Topic 842 on July 1, 2021 using its adoption date as the date of initial application. As a result of the transition method elected, prior period comparative information has not been restated and continues to be reported under the accounting standards in effect in those periods.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

**NOTE 3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS
(CONTINUED)**

The Organization elected to use the following transition practical expedients provided in ASC 842:

- The Organization elected not to reassess if any expired or existing contracts contain leases under the clarified definition of a lease in ASC 842.
- The Organization elected not to reassess lease classification for expired or existing leases as of the date of adoption.
- The Organization elected not to reassess whether previously capitalized initial direct lease costs would qualify for capitalization under ASC 842.

As a result of adopting the new standard, substantially all of the Organization's operating lease commitments at the adoption date were recognized as operating lease assets and liabilities, initially measured as the present value of future lease payments for the remaining term discounted using a risk free rate of 2.98%. At July 1, 2021, the adoption date, the Organization recognized operating lease assets and liabilities of approximately \$240,000.

The adoption of the new standard is non-cash in nature and had no impact on the net cash flows from operating, investing or financing activities. See Note 8 for additional information regarding the Organization's lease arrangements and summary of significant accounting polices related to lease arrangements.

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 has determined that the application of the amendments of ASU 2020-07 did not have a material impact on its financial statements and related disclosures.

NOTE 4. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2022:

Cash and cash equivalents	\$	1,019,170
Current portion of mortgages receivable		108,786
		1,127,956
Less net assets with donor restrictions		(461,816)
Less board designated net assets		(200,000)
		466,140
Add net assets with restrictions to be met in less than a year		430,716
Financial assets available to meet general expenditures over the next twelve months	\$	896,856

SOUTH SHORE HABITAT FOR HUMANITY, INC.
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FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 4. AVAILABILITY AND LIQUIDITY (CONTINUED)

The Organization has certain donor-restricted net assets totaling \$430,716 that are available for general expenditure within one year of June 30, 2022 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, 2022. Financial assets available to meet general expenditures over the next twelve months noted above do not include the balance of construction in progress of \$74,035. 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 7.38% to 8.14%. For the years ended June 30, 2022 and 2021, newly issued mortgages receivable were discounted by 7.49% and 7.23%, respectively.

The mortgages receivable at June 30 are as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total mortgages receivable	\$ 1,183,148	\$ 1,281,816	\$ 1,394,661
Less unamortized discount	(675,771)	(727,782)	(788,211)
Less allowance for doubtful accounts	<u>(16,237)</u>	<u>(16,237)</u>	<u>(19,811)</u>
	491,140	537,797	586,639
Less current portion of mortgages receivable	<u>(108,786)</u>	<u>(116,952)</u>	<u>(121,778)</u>
	<u>\$ 382,354</u>	<u>\$ 420,845</u>	<u>\$ 464,861</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>
2023	\$ 108,786
2024	96,320
2025	90,958
2026	82,232
2027	61,974
Thereafter	<u>742,878</u>
	<u>\$ 1,183,148</u>

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 6. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Warehouse equipment and vehicles	\$ 28,858	\$ 28,858
Office equipment	20,725	-
Computer equipment	12,638	12,638
Telephone equipment	<u>5,492</u>	<u>5,492</u>
Total cost	67,713	46,988
Less accumulated depreciation	<u>50,149</u>	<u>46,988</u>
Property and equipment, net	<u>\$ 17,564</u>	<u>\$ -</u>

NOTE 7. DEMAND NOTE PAYABLE

The Organization has a \$287,402 line of credit agreement with a bank. Advances are subject to a borrowing base and may not exceed 50% of unpaid eligible mortgages receivable. Outstanding amounts require interest at the greater of the Bank's Base Lending Rate or 3.75% (4.75% and 3.75% at June 30, 2022 and 2021, respectively). The line of credit is due on demand and was renewed subsequent to June 30, 2022 to extend its expiration to June 30, 2023. The line of credit is secured by substantially all assets and nine mortgage notes receivable at June 30, 2022 and 2021. There were no amounts outstanding at June 30, 2022 and 2021.

NOTE 8. LEASE ARRANGEMENTS

Lease Arrangements Year Ended June 30, 2022

The Organization leases office space under a 5 year lease, with an option to renew for an additional 5 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.

Determination of Whether a Contract Contains a Lease

The Organization determines if an arrangement contains a lease at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. A contract contains a lease if the contract conveys the right to control the use of the identified property, plant or equipment, explicitly or implicitly, for a period of time in exchange for consideration. Control of an underlying asset is conveyed if the Organization obtains the rights to direct the use of and obtain substantially all of the economic benefit from the use of the underlying asset.

The Organization has made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from short-term leases for any class of underlying asset. A lease is a short-term lease if the lease term is 12 months or less.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 8. LEASE ARRANGEMENTS (CONTINUED)

Right-of-Use Model and Determination of Lease Term

The Organization uses the right-of-use (“ROU”) model to account for leases, which requires the recognition of a lease liability and ROU asset on the lease commencement date. A lease liability is measured equal to the present value of the remaining lease payments over the lease term and is discounted using the incremental borrowing rate, as the rates implicit in the Organization’s leases are not readily determinable. The incremental borrowing rate is the rate of interest that the Organization would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. Lease payments include payments made before the commencement date and any residual value guarantees, if applicable. The initial ROU asset consists of the initial measurement of the lease liability, adjusted for any payments made before the commencement date, initial direct costs and lease incentives earned. When determining the lease term, the Organization includes option periods when it is reasonably certain that those options will be exercised.

The Organization has elected the practical expedient to not separate lease and non-lease components for all classes of underlying assets.

Lease Classification

At the lease commencement date, contracts containing a lease are evaluated for classification as an operating lease or finance lease based on their terms. A lease is classified as a finance lease if any one of the following criteria are met: (a) the lease transfers ownership of the asset by the end of the lease term, (b) the lease contains an option to purchase the asset that is reasonably certain to be exercised, (c) the lease term is for a major part of the remaining useful life of the asset, (d) the present value of the lease payments equals or exceeds substantially all of the fair value of the asset, or (e) the asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. If a lease does not meet any one of these criteria, it is classified as an operating lease. The Organization reassesses lease classification subsequent to commencement upon a change to the expected term or a modification to the contract.

Lease Costs

For operating leases, minimum lease payments, including minimum scheduled rent increases, are recognized as operating lease costs on a straight-line basis over the applicable lease term. Some operating lease arrangements include variable lease costs, including real estate taxes, insurance, common area maintenance or increase in rental costs related to information. Such variable payments, other than those dependent upon a market index or rate, are excluded from the measurement of the lease liability and are expensed when the obligation for those payments is incurred.

All of the Organization’s lease arrangements are classified as operating leases. The Organization’s short-term lease costs do not reflect its ongoing short-term lease commitments. For the year ended June 30, 2022, total rent expense for short-term leases was \$3,169. At June 30, 2022, short-term lease commitments are approximately \$2,600.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 8. LEASE ARRANGEMENTS (CONTINUED)

Lease Costs (continued)

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

Cash paid for amount included in measurement of lease liabilities	\$ 246,374
Weighted-average remaining lease term	4.75
Weighted-average discount rate	2.55 %

As of June 30, 2022, the Organization's future minimum payments, including interest on operating lease liabilities are as follows:

Years ending December 31:

2023	\$ 49,875
2024	51,375
2025	52,875
2026	54,375
2027	<u>41,625</u>
Total lease payments	250,125
Less: amount of lease payments representing interest	<u>(15,104)</u>
Present value of lease liabilities	235,021
Less current portion	<u>(44,395)</u>
	<u>\$ 190,626</u>

Lease Arrangements Year Ended June 30, 2021

Prior to the adoption of ASC Topic 842 on July 1, 2021, the Organization accounted for its leases in accordance with ASC Topic 840, which did not require recognition of the lease arrangement on the balance sheet for leases classified as operating leases. For the year ended June 30, 2021, the rent expense was \$93,874.

At June 30, 2021, future minimum lease payments under noncancelable leases were as follows:

<u>Years Ending December 31:</u>	<u>Amount</u>
2022	\$ 76,319
2023	<u>2,641</u>
Total future minimum lease payments	<u>\$ 78,960</u>

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 9. NET ASSETS

Net assets with donor restrictions were \$461,816 and \$473,377 at June 30, 2022 and 2021, respectively, and consist of contributions restricted for construction in various locations.

Net assets of \$622,858 and \$440,431 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, 2022 and 2021, respectively.

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

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, 2022, subject to periodic review, and was \$15,000 for the years ended June 30, 2022 and 2021.

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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 13. DISCONTINUED OPERATIONS

In December 2019, the Organization closed its ReStore, and accordingly, the Organization's financial statements were prepared with the ReStore's net change in net assets and cash flows for the year ended June 30, 2021 separately stated as "discontinued operations".

There were no assets or liabilities related to the ReStore's discontinued operations at June 30, 2022 and 2021. The results of the ReStore's discontinued operations are summarized as follows for the year ending June 30, 2021:

ReStore income	\$ -
ReStore costs and expenses	(36,103)
Loss from abandoned leasehold improvements	-
Income from lease agreement settlement	183,739
Loss from lease term rent accrual	-
Loss from inventory impairment	<u>-</u>
Net income (loss) from discontinued operations	\$ <u><u>147,636</u></u>