

SOUTH SHORE HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

**SOUTH SHORE HABITAT FOR HUMANITY, INC.
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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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, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Shore Habitat for Humanity, Inc. as of June 30, 2020 and 2019, 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 2, 2020

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 595,622	\$ 41,938
Current portion of mortgages receivable	121,778	173,593
Prepaid expenses and other current assets	15,662	38,435
Inventory and uninstalled materials	26,700	52,236
Construction in progress, net	303,485	1,112,529
Current assets of discontinued operations	<u>-</u>	<u>45,814</u>
Total current assets	<u>1,063,247</u>	<u>1,464,545</u>
Property and equipment, net		
Property and equipment, net	1,607	3,006
Property and equipment of discontinued operations, net	<u>-</u>	<u>105,235</u>
Total property and equipment, net	<u>1,607</u>	<u>108,241</u>
Other assets:		
Mortgages receivable, net of current portion	464,861	838,668
Other assets	<u>37,300</u>	<u>32,400</u>
Total other assets	<u>502,161</u>	<u>871,068</u>
TOTAL ASSETS	<u>\$ 1,567,015</u>	<u>\$ 2,443,854</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Line of credit	\$ -	\$ 340,000
Construction loan	300,000	688,600
Deferred revenue	1,200	3,900
Accounts payable and accrued expenses	55,634	107,296
Current liabilities of discontinued operations	<u>292,963</u>	<u>38,508</u>
Total liabilities	<u>649,797</u>	<u>1,178,304</u>
Net assets:		
Without donor restrictions	566,666	691,188
With donor restrictions	<u>350,552</u>	<u>574,362</u>
Total net assets	<u>917,218</u>	<u>1,265,550</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,567,015</u>	<u>\$ 2,443,854</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, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Sales of homes	\$ 970,000	\$ -	\$ 970,000	\$ 160,000	\$ -	\$ 160,000
In-kind donations:						
Land	-	220,133	220,133	-	55,033	55,033
Services and construction materials	-	89,776	89,776	6,168	23,097	29,265
Donations:						
Individual	165,340	55,925	221,265	136,901	-	136,901
Corporate	30,702	-	30,702	68,783	-	68,783
Congregation	11,646	-	11,646	10,541	-	10,541
Grants	200,400	128,605	329,005	153,025	469,572	622,597
Special events	200,225	-	200,225	411,755	-	411,755
Mortgage discount amortization	87,582	-	87,582	101,459	-	101,459
Net gain on sale of mortgages	346,353	-	346,353	-	-	-
Other income, net	20,521	-	20,521	-	-	-
Net assets released from restrictions	<u>718,249</u>	<u>(718,249)</u>	<u>-</u>	<u>312,894</u>	<u>(312,894)</u>	<u>-</u>
Total revenues and other support	<u>2,751,018</u>	<u>(223,810)</u>	<u>2,527,208</u>	<u>1,361,526</u>	<u>234,808</u>	<u>1,596,334</u>
Expenses:						
Program services:						
Cost of homes sold	1,293,891	-	1,293,891	267,853	-	267,853
Mortgage discount	191,405	-	191,405	97,482	-	97,482
Tithe to Habitat for Humanity International	24,000	-	24,000	19,500	-	19,500
Other	<u>502,670</u>	<u>-</u>	<u>502,670</u>	<u>487,795</u>	<u>-</u>	<u>487,795</u>
Total program services expenses	<u>2,011,966</u>	<u>-</u>	<u>2,011,966</u>	<u>872,630</u>	<u>-</u>	<u>872,630</u>
Supporting services:						
Fundraising	210,598	-	210,598	371,172	-	371,172
General and administrative	<u>77,268</u>	<u>-</u>	<u>77,268</u>	<u>69,279</u>	<u>-</u>	<u>69,279</u>
Total supporting services expenses	<u>287,866</u>	<u>-</u>	<u>287,866</u>	<u>440,451</u>	<u>-</u>	<u>440,451</u>
Total expenses	<u>2,299,832</u>	<u>-</u>	<u>2,299,832</u>	<u>1,313,081</u>	<u>-</u>	<u>1,313,081</u>
Changes in net assets from continuing operations	451,186	(223,810)	227,376	48,445	234,808	283,253
Discontinued operations - loss from operations of ReStore	(575,708)	-	(575,708)	(243,346)	-	(243,346)
Net assets - beginning	<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>
NET ASSETS - ENDING	<u>\$ 566,666</u>	<u>\$ 350,552</u>	<u>\$ 917,218</u>	<u>\$ 691,188</u>	<u>\$ 574,362</u>	<u>\$ 1,265,550</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>2020 Total</u>	<u>2019 Comparative Totals</u>
Cost of homes sold	\$ 1,293,891	\$ -	\$ -	\$ 1,293,891	\$ 267,853
Salaries and benefits	276,399	149,527	27,984	453,910	600,945
Mortgage discount	191,405	-	-	191,405	97,482
Rent	74,534	4,861	1,620	81,015	89,114
Interest	49,774	-	-	49,774	19,345
Tithe	24,000	-	-	24,000	19,500
Professional fees	-	-	33,905	33,905	21,519
Supplies	23,409	180	1,393	24,982	20,535
Golf tournament costs	-	23,860	-	23,860	24,605
Construction	18,948	-	-	18,948	17,665
Bad debt expense (recovery)	17,260	-	-	17,260	(18,628)
Insurance	13,209	-	-	13,209	2,225
Gala costs	-	11,393	-	11,393	57,365
Computer maintenance fees	5,864	3,640	607	10,111	15,672
Postage	1,969	5,414	1,991	9,374	8,378
Utilities	7,949	518	173	8,640	8,615
Telephone	4,986	3,095	515	8,596	8,694
Ground maintenance	5,742	374	125	6,241	16,642
Bank charges	-	-	6,135	6,135	5,840
Miscellaneous	1,168	1,859	1,151	4,178	6,830
Ride for Habitat costs	-	3,064	-	3,064	7,846
Dues and subscriptions	-	2,120	-	2,120	2,348
Travel	172	312	1,202	1,686	6,244
Depreciation	1,287	84	28	1,399	5,069
Conference and seminars	-	-	439	439	605
Printing	-	297	-	297	773
TOTAL EXPENSES	<u>\$ 2,011,966</u>	<u>\$ 210,598</u>	<u>\$ 77,268</u>	<u>\$ 2,299,832</u>	<u>\$ 1,313,081</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 322,618	\$ 250,781	\$ 27,546	\$ 600,945
Cost of homes sold	267,853	-	-	267,853
Mortgage discount	97,482	-	-	97,482
Rent	81,985	5,347	1,782	89,114
Gala costs	-	57,365	-	57,365
Golf tournament costs	-	24,605	-	24,605
Professional fees	-	-	21,519	21,519
Supplies	15,903	696	3,936	20,535
Tithe	19,500	-	-	19,500
Interest	19,345	-	-	19,345
Construction	17,665	-	-	17,665
Ground maintenance	15,310	999	333	16,642
Computer maintenance fees	9,090	5,955	627	15,672
Telephone	5,043	3,304	347	8,694
Utilities	7,926	517	172	8,615
Postage	378	6,394	1,606	8,378
Ride for Habitat costs	-	7,846	-	7,846
Miscellaneous	1,298	1,414	4,118	6,830
Travel	2,974	2,039	1,231	6,244
Bank charges	-	-	5,840	5,840
Depreciation	4,663	304	102	5,069
Dues and subscriptions	-	2,348	-	2,348
Insurance	2,225	-	-	2,225
Printing	-	773	-	773
Conference and seminars	-	485	120	605
Bad debt expense	(18,628)	-	-	(18,628)
TOTAL EXPENSES	<u>\$ 872,630</u>	<u>\$ 371,172</u>	<u>\$ 69,279</u>	<u>\$ 1,313,081</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating activities:		
Continuing operations:		
Change in net assets from continuing operations	\$ 227,376	\$ 283,253
Adjustments to reconcile changes in net assets to net cash provided by (used in) continuing operating activities:		
Depreciation expense	1,399	5,069
Mortgage discount	191,405	97,482
Mortgage discount amortization	(87,582)	(101,459)
Bad debts (recovery)	17,260	(18,628)
Proceeds from sale of mortgages	356,760	-
Gain on sale of mortgages	(346,353)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Other assets	(4,900)	-
Mortgages receivable	(150,868)	19,889
Contributions receivable	-	72,100
Prepaid expenses and other current assets	22,773	12,108
Uninstalled materials	25,536	1,900
Construction in progress	809,044	(891,170)
Increase (decrease) in:		
Accounts payable and accrued expenses	(51,662)	(57,442)
Deferred revenue	(2,700)	3,900
Net cash provided by (used in) continuing operations	<u>1,007,488</u>	<u>(572,998)</u>
Discontinued operations:		
Change in net assets from discontinued operations	(575,708)	(243,346)
Adjustments to reconcile change in net assets to net cash used in discontinued operations:		
Loss on disposal of property and equipment	77,782	-
Depreciation expense	27,453	54,905
Changes in assets and liabilities:		
(Increase) decrease in uninstalled materials	45,814	(1,679)
Increase (decrease) in accounts payable and accrued expenses	254,455	(11,344)
Net cash used in discontinued operations	<u>(170,204)</u>	<u>(201,464)</u>
Net cash provided by (used in) operating activities	<u>837,284</u>	<u>(774,462)</u>
Financing activities:		
Net proceeds from (payments on) line of credit	105,000	40,000
Proceeds from (payments on) long-term debt	(388,600)	603,500
Net cash provided by (used in) financing activities	<u>(283,600)</u>	<u>643,500</u>
Net increase (decrease) in cash and cash equivalents	553,684	(130,962)
Cash and cash equivalents - beginning	<u>41,938</u>	<u>172,900</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 595,622</u></u>	<u><u>\$ 41,938</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 49,774</u>	<u>\$ 19,345</u>
Payments on line of credit with mortgage sale proceeds	<u>\$ 445,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1. ORGANIZATION

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

The Organization pursues its mission by building homes using donated land, supplies, volunteer labor, contributed funds and properties obtained for minimal cost. The Organization then sells these homes at no more than cost plus the value of the donated materials to selected, low-income families. The land is typically donated by cities and towns and, frequently, these donations subject the home sale to a maximum selling price. The Organization provides the recipient families with no cash down payment, no-interest financing. Families contribute "sweat equity" in their homes or succeeding homes. During the year ended June 30, 2020, the Organization sold four homes. The Organization sold one home during the year ended June 30, 2019. At June 30, 2020 and 2019, there were three and eight outstanding commitments to build, respectively.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Financial Statement Presentation

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. The Organization may designate portions of its unrestricted net assets as board designated for various purposes. At June 30, 2020 and 2019, there were no board designated net assets.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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 promise is received. Conditional promises to give are not recognized until they become unconditional, that is at the time when the conditions on which they depend are substantially met. All donor restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

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

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

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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.

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 year ended June 30, 2020, the Organization recognized gains from the sale of mortgages of approximately \$350,000, presented as a component of revenue and other support on the 2020 statement of activities. There were no mortgages sold during the year ended June 30, 2019.

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. At June 30, 2019, cash equivalents include money market funds without withdrawal restrictions. There were no cash equivalents at June 30, 2020.

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, 2020 and 2019 were \$396,219 and \$51,018, 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, 2020 and 2019, the allowance for doubtful accounts was \$19,811 and \$2,551, respectively.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable (continued)

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

Inventory and Uninstalled Materials

In 2019, the Organization's inventory consisted primarily of donated materials to be sold in the ReStore, which were recorded at estimated fair value based on expected selling price, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. At June 30, 2019, inventory was valued at \$45,814, which is net of a reserve for future markdowns of inventory held of \$11,800. During 2020, the Organization decided to close the ReStore, and determined that the inventory on hand did not have a net realizable value and all remaining inventory was written off.

Also included in the Organization's inventory is uninstalled construction materials which are stated at the lower of cost or net realizable value. The Organization reviews its uninstalled construction materials for product that is obsolete and no longer usable in construction projects. For the years ended June 30, 2020 and 2019, uninstalled construction materials are reported at \$41,700 and \$52,236, respectively. A reserve of \$15,000 for obsolete inventory was included in inventory at June 30, 2020. There was no reserve at June 30, 2019.

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 \$21,186 was recorded at June 30, 2020. Management had determined that no allowance was necessary at June 30, 2019.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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

Deferred Revenue

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

Deferred Rent

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

Advertising

The Organization expenses advertising costs as incurred. Total advertising expense was \$770 and \$6,321 for the years ended June 30, 2020 and 2019, 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
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements

In June 2018, FASB issued ASU 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 adopted ASU 2018-08 effective July 1, 2019 using the modified prospective method. Under the modified prospective method, the amendments are applied to agreements that are either not completed as of the effective date or entered into after the effective date. The Organization has determined that the application of the amendments of ASU 2018-08 did not have a material impact on the Organization's financial statements and related disclosures.

Recently Issued But Not Yet Effective Accounting Pronouncements

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 good 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. In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)* (ASU "2020-05"). ASU 2020-05 provided for an optional election to defer the effective date for ASC 606 and related amendments for an additional year.

Prior to the Coronavirus pandemic (see Note 10), the Organization was finalizing its assessment and evaluation of the impact that ASC 606 will have on the Organization's financial statements and related disclosures. The Organization was unable to complete its assessment and evaluation due to the operational disruptions caused by the pandemic. As a result, the Organization elected the option available under ASU 2020-05 to defer the effective date of ASC 606 for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. The standards permits the use of either the retrospective or cumulative-effect transition method.

The Organization is currently completing its final assessment and evaluation of the impact that ASC 606 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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued But Not Yet Effective Accounting Pronouncements (continued)

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 position through a right-of-use asset and a lease liability and enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842* and ASU No. 2018-11, *Leases: Targeted Improvements* which provided narrow amendments to clarify how to apply certain aspects of the new leases standard and options regarding transition. The standard requires either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits the Organization to use its effective date as the date of initial application without restating the comparative period consolidated financial statements and recognizing any cumulative effect adjustment to the opening balance sheet. In June 2020, the FASB issued ASU No. 2020-05 *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*. ASU 2020-05 amended the effective date for ASU 2016-02 and related amendments. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. The Organization is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Reclassifications

Certain amounts included in the 2019 financial statements have been reclassified to conform to the 2020 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, 2020, through the date which the financial statements were available to be issued, November 2, 2020, and has determined that there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

NOTE 3. DISCONTINUED OPERATIONS

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

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3. DISCONTINUED OPERATIONS (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
ReStore income	\$ 188,469	\$ 925,516
ReStore costs and expenses	(489,574)	(1,168,862)
Loss from abandoned leasehold improvements	(77,782)	-
Loss from lease term rent accrual	(150,750)	-
Loss from inventory impairment	<u>(46,071)</u>	<u>-</u>
Net loss from discontinued operations	<u>\$ (575,708)</u>	<u>\$ (243,346)</u>

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

As of June 30, 2020 and 2019, the Organization's assets and liabilities related to the ReStore discontinued operations were as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ -	\$ 45,814
Property and equipment, net	\$ -	\$ 105,235
Current liabilities	\$ (292,963)	\$ (38,508)

NOTE 4. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of June 30, 2020:

Cash and cash equivalents	\$ 595,622
Mortgages receivable	<u>121,778</u>
Total financial assets at year end	717,400
Less financial assets with donor restrictions	<u>350,552</u>
	366,848
Add net assets with restrictions to be met in less than a year	<u>142,025</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 508,873</u>

The Organization has certain donor-restricted net assets totaling \$142,025 that are available for general expenditure within one year of June 30, 2020 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.

SOUTH SHORE HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4. AVAILABILITY AND LIQUIDITY (CONTINUED)

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, 2020. Financial assets available to meet general expenditures over the next twelve months noted above do not include the balance of construction in progress of \$303,485. 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 8.48%. For the years ended June 30, 2020 and 2019, newly issued mortgages receivable were discounted by 7.38% and 7.66%, respectively.

The mortgages receivable at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Total mortgages receivable	\$ 1,394,661	\$ 2,336,410
Less unamortized discount	(788,211)	(1,321,598)
Less allowance for doubtful accounts	<u>(19,811)</u>	<u>(2,551)</u>
	586,639	1,012,261
Less current portion of mortgages receivable	<u>121,778</u>	<u>173,593</u>
	<u>\$ 464,861</u>	<u>\$ 838,668</u>

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2021	\$ 121,778
2022	115,192
2023	108,661
2024	98,269
2025	90,671
Thereafter	<u>860,090</u>
	<u>\$ 1,394,661</u>

SOUTH SHORE HABITAT FOR HUMANITY, INC.
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NOTE 6. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Warehouse equipment and vehicles	\$ 28,858	\$ 28,858
Computer equipment	12,638	12,638
Telephone equipment	8,492	8,492
Leasehold improvements – ReStore	<u>-</u>	<u>274,526</u>
Total cost	49,988	324,514
Less accumulated depreciation	<u>48,381</u>	<u>216,273</u>
Property and equipment, net	<u>\$ 1,607</u>	<u>\$ 108,241</u>

NOTE 7. DEMAND NOTE PAYABLE

The Organization had a \$500,000 line of credit agreement with a bank which was reduced to \$287,402 at June 30, 2020. Advances are subject to a borrowing base and may not exceed 50% of unpaid eligible mortgages receivable. Outstanding amounts required interest at the greater of the Wall Street Journal Prime Rate or 4.00% (4.00% and 5.25% at June 30, 2020 and 2019, respectively). As of June 30, 2020, the interest on outstanding amounts will be based on the greater of the Bank's Base Lending Rate or 3.75%. The line of credit is due on demand and expires on June 30, 2021. The line of credit is secured by substantially all assets and nine and thirteen mortgage notes receivable at June 30, 2020 and 2019, respectively. There were no amounts outstanding at June 30, 2020. There were borrowings outstanding of \$340,000 at June 30, 2019.

NOTE 8. LONG-TERM DEBT

Construction Loan

The Organization entered into a construction loan agreement with a bank in March 2018. The construction loan agreement was modified in March 2020 to extended the maturity date to July 29, 2020. The loan provided for maximum borrowings of \$750,000 with a drawdown period through September 29, 2019. 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% (3.50% and 5.25% at June 30, 2020 and 2019, respectively). The loan is collateralized by a mortgage interest in a parcel of land and buildings currently under development, and pursuant to the modification agreement, there are partial releases of each moderate income unity sold in consideration of partial principal paydowns. There were borrowings outstanding of \$300,000 and \$688,600 at June 30, 2020 and 2019, respectively. The construction loan balance was repaid in full subsequent to June 30, 2020.

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

Paycheck Protection Program

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

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

The Organization currently intends to use the proceeds for purposes consistent with the PPP, however, there can be no assurances that the Organization will ultimately meet the conditions for forgiveness of the loan or that we will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in whole or in part.

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

NOTE 9. NET ASSETS

Net assets with donor restrictions were \$350,552 and \$574,362, at June 30, 2020 and 2019, respectively and consist of contributions restricted for construction in various locations.

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

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, 2020 and 2019, as follows:

	<u>2020</u>	<u>2019</u>
Construction of homes - specific locations	\$ 718,249	\$ 302,480
ReStore expenses	<u>-</u>	<u>10,414</u>
	<u>\$ 718,249</u>	<u>\$ 312,894</u>

NOTE 10. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES

Operating Leases

The Organization leases its office space through a lease agreement expiring in May 2022. During 2020, monthly payments under this lease ranged from \$6,250 to \$6,450. Under the terms of the lease agreement, the Organization is subject to an annual increase in base rent of \$2,400.

The Organization leased its ReStore space through a lease agreement expiring in September 2021. During 2019, monthly payments under this lease ranged from \$12,313 to \$13,125. 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. In December 2019, the Organization decided to close the ReStore and has classified the rent expense for the year ended June 30, 2020 of \$356,370 in discontinued operations in the statement of activities. The Organization has accrued the remaining lease payments of approximately \$150,000 and these amounts are included in discontinued operations in the statement of activities (Note 3).

The Organization also leases various equipment under operating leases expiring at various dates through April, 2023. For the years ended June 30, 2020 and 2019, total rent expense was \$87,108 and \$323,657, respectively.

Future minimum lease payments under operating leases, not including the ReStore, by year and in the aggregate at June 30, 2020, consist of the following:

<u>Year Ending June 30:</u>	<u>Amount</u>
2021	\$ 80,769
2022	76,319
2023	<u>2,641</u>
	<u>\$ 159,729</u>

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NOTE 10. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES
(CONTINUED)

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, 2020, subject to periodic review and was \$15,000 for the years ended June 30, 2020 and 2019.

The Organization pays an additional tithe to HFHI based on homes sold. For the years ended June 30, 2020 and 2019, the Organization paid total fees of \$24,000 and \$19,500, respectively.

COVID-19

In March 2020, the World Health Organization declared COVID-19 to constitute a "Public Health Emergency of International Concern". Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more. Local governments and communities have taken and may continue to take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation in order to plan for any potential impact to the Organization. No adjustments have been made to these financial statements as a result of this uncertainty.

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. The Organization does not make any matching employer contributions to the plan.