

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**SOUTH SHORE HABITAT FOR HUMANITY, INC.  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts  
September 27, 2018

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<u><b>ASSETS</b></u>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
Current assets:		
Cash and cash equivalents	\$ 172,900	\$ 46,522
Current portion of mortgages receivable	174,039	181,053
Contributions receivable	72,100	41,255
Property held for sale	-	147,786
Prepaid expenses and other current assets	50,543	51,401
Inventory and uninstalled materials	98,271	123,313
Construction in progress, net	<u>221,359</u>	<u>29,329</u>
Total current assets	<u>789,212</u>	<u>620,659</u>
Property and equipment, net	<u>168,215</u>	<u>231,178</u>
Other assets:		
Mortgages receivable, net of current portion	835,506	841,568
Other assets	<u>32,400</u>	<u>32,400</u>
Total other assets	<u>867,906</u>	<u>873,968</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 1,825,333</b></u>	<u><b>\$ 1,725,805</b></u>
 <u><b>LIABILITIES AND NET ASSETS</b></u>  		
Current liabilities:		
Line of credit	\$ 300,000	\$ 215,000
Accounts payable and accrued expenses	<u>214,590</u>	<u>116,196</u>
Total current liabilities	514,590	331,196
Long term debt	<u>85,100</u>	<u>-</u>
Total liabilities	<u>599,690</u>	<u>331,196</u>
Net assets:		
Unrestricted	886,089	1,233,632
Temporarily restricted	<u>339,554</u>	<u>160,977</u>
Total net assets	<u>1,225,643</u>	<u>1,394,609</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 1,825,333</b></u>	<u><b>\$ 1,725,805</b></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, 2018 AND 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Sales of homes	\$ 410,900	\$ -	\$ 410,900	\$ 242,644	\$ -	\$ 242,644
In-kind donations:						
Land	-	13,000	13,000	-	113,600	113,600
Services	-	12,150	12,150	-	11,450	11,450
Construction materials	4,204	15,174	19,378	25,759	11,218	36,977
ReStore materials	337,911	-	337,911	427,063	-	427,063
Donations:						
Individual	141,292	-	141,292	117,993	-	117,993
Corporate	77,242	-	77,242	56,090	-	56,090
Congregation	10,105	-	10,105	11,410	-	11,410
ReStore sales	393,234	-	393,234	417,047	-	417,047
Grants	205,491	357,329	562,820	136,000	213,676	349,676
Special events	312,128	-	312,128	281,402	-	281,402
Mortgage discount amortization	97,326	-	97,326	98,565	-	98,565
Net assets released from restrictions	<u>219,076</u>	<u>(219,076)</u>	<u>-</u>	<u>378,704</u>	<u>(378,704)</u>	<u>-</u>
Total revenues and other support	<u>2,208,909</u>	<u>178,577</u>	<u>2,387,486</u>	<u>2,192,677</u>	<u>(28,760)</u>	<u>2,163,917</u>
Expenses:						
Program services:						
Homebuilding program:						
Cost of homes sold	459,265	-	459,265	382,204	-	382,204
Mortgage discount	112,006	-	112,006	145,965	-	145,965
Tithe to Habitat for Humanity International	22,752	-	22,752	19,500	-	19,500
Other	<u>562,412</u>	<u>-</u>	<u>562,412</u>	<u>591,508</u>	<u>-</u>	<u>591,508</u>
Total homeownership program	1,156,435	-	1,156,435	1,139,177	-	1,139,177
Restore	<u>1,000,340</u>	<u>-</u>	<u>1,000,340</u>	<u>1,043,562</u>	<u>-</u>	<u>1,043,562</u>
Total program services expenses	<u>2,156,775</u>	<u>-</u>	<u>2,156,775</u>	<u>2,182,739</u>	<u>-</u>	<u>2,182,739</u>
Supporting services:						
Fundraising	336,722	-	336,722	259,934	-	259,934
General and administrative	<u>62,955</u>	<u>-</u>	<u>62,955</u>	<u>70,423</u>	<u>-</u>	<u>70,423</u>
Total supporting services expenses	<u>399,677</u>	<u>-</u>	<u>399,677</u>	<u>330,357</u>	<u>-</u>	<u>330,357</u>
Total expenses	<u>2,556,452</u>	<u>-</u>	<u>2,556,452</u>	<u>2,513,096</u>	<u>-</u>	<u>2,513,096</u>
Changes in net assets	(347,543)	178,577	(168,966)	(320,419)	(28,760)	(349,179)
Net assets - beginning	<u>1,233,632</u>	<u>160,977</u>	<u>1,394,609</u>	<u>1,554,051</u>	<u>189,737</u>	<u>1,743,788</u>
<b>NET ASSETS - ENDING</b>	<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>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)**

	Homeownership Program	ReStore	Total Program	Fundraising	General and Administrative	2018 Total	2017 Comparative Totals
Salaries and benefits	\$ 376,843	\$ 270,493	\$ 647,336	\$ 234,615	\$ 26,945	\$ 908,896	\$ 936,784
Cost of homes sold	459,265	-	459,265	-	-	459,265	382,204
Cost of goods sold - ReStore	-	385,668	385,668	-	-	385,668	406,919
Rent	82,138	205,165	287,303	3,350	1,848	292,501	274,867
Mortgage discount	112,006	-	112,006	-	-	112,006	145,965
Depreciation	6,652	54,905	61,557	1,219	187	62,963	64,903
Gala costs	-	-	-	47,985	-	47,985	43,665
Utilities	8,833	22,281	31,114	360	199	31,673	26,745
Equipment rental	-	29,713	29,713	-	-	29,713	28,173
Advertising	21,351	6,730	28,081	-	-	28,081	19,350
Golf tournament costs	-	-	-	23,110	-	23,110	22,378
Tithe	22,752	-	22,752	-	-	22,752	19,500
Computer maintenance fees	7,382	7,484	14,866	3,459	1,229	19,554	19,828
Insurance	11,706	6,454	18,160	-	-	18,160	15,942
Professional fees	-	-	-	-	18,019	18,019	16,363
Miscellaneous	3,439	9,281	12,720	1,115	1,709	15,544	11,250
Ground maintenance	10,560	1,800	12,360	431	238	13,029	13,966
Telephone	5,574	3,988	9,562	2,288	352	12,202	11,950
Interest	11,422	-	11,422	-	-	11,422	6,450
Conference and seminars	4,315	2,937	7,252	578	2,586	10,416	4,259
Postage	334	30	364	8,423	1,147	9,934	6,983
Travel	4,888	458	5,346	1,859	1,549	8,754	7,915
Dues and subscriptions	-	3,725	3,725	3,589	-	7,314	7,278
Supplies	166	2,298	2,464	1,051	2,991	6,506	6,208
Construction	6,077	-	6,077	-	-	6,077	5,360
Bank charges	-	-	-	-	3,956	3,956	9,311
Warehouse	-	3,070	3,070	-	-	3,070	1,608
Ride for Habitat costs	-	-	-	2,701	-	2,701	8,155
Printing	-	-	-	589	-	589	-
Bad debt expense (recovery)	522	-	522	-	-	522	(26,416)
Holding costs	210	-	210	-	-	210	493
Inventory reserve	-	(16,140)	(16,140)	-	-	(16,140)	14,740
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,156,435</u></b>	<b><u>\$ 1,000,340</u></b>	<b><u>\$ 2,156,775</u></b>	<b><u>\$ 336,722</u></b>	<b><u>\$ 62,955</u></b>	<b><u>\$ 2,556,452</u></b>	<b><u>\$ 2,513,096</u></b>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<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	\$ 457,789	\$ 285,725	\$ 743,514	\$ 163,367	\$ 29,903	\$ 936,784
Cost of goods sold - ReStore	-	406,919	406,919	-	-	406,919
Cost of homes sold	382,204	-	382,204	-	-	382,204
Rent	82,508	187,137	269,645	3,365	1,857	274,867
Mortgage discount	145,965	-	145,965	-	-	145,965
Depreciation	9,200	54,905	64,105	730	68	64,903
Gala costs	-	-	-	43,665	-	43,665
Equipment rental	-	28,173	28,173	-	-	28,173
Utilities	7,097	19,198	26,295	290	160	26,745
Golf tournament costs	-	-	-	22,378	-	22,378
Computer maintenance fees	8,410	7,525	15,935	2,628	1,265	19,828
Tithe	19,500	-	19,500	-	-	19,500
Advertising	7,978	11,372	19,350	-	-	19,350
Professional fees	-	-	-	1,844	14,519	16,363
Insurance	9,718	6,224	15,942	-	-	15,942
Inventory reserve	-	14,740	14,740	-	-	14,740
Ground maintenance	9,157	4,229	13,386	374	206	13,966
Telephone	6,273	3,942	10,215	1,334	401	11,950
Miscellaneous	5,890	4,456	10,346	904	-	11,250
Bank charges	-	-	-	-	9,311	9,311
Ride for Habitat costs	-	-	-	8,155	-	8,155
Travel	4,211	830	5,041	1,528	1,346	7,915
Dues and subscriptions	-	3,660	3,660	3,618	-	7,278
Postage	173	422	595	5,137	1,251	6,983
Interest	-	-	-	-	6,450	6,450
Supplies	-	2,497	2,497	145	3,566	6,208
Construction	5,360	-	5,360	-	-	5,360
Conference and seminars	3,667	-	3,667	472	120	4,259
Warehouse	-	1,608	1,608	-	-	1,608
Holding costs	493	-	493	-	-	493
Bad debt expense (recovery)	(26,416)	-	(26,416)	-	-	(26,416)
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,139,177</u></b>	<b><u>\$ 1,043,562</u></b>	<b><u>\$ 2,182,739</u></b>	<b><u>\$ 259,934</u></b>	<b><u>\$ 70,423</u></b>	<b><u>\$ 2,513,096</u></b>

See accompanying notes to financial statements.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating activities:		
Changes in net assets	\$ (168,966)	\$ (349,179)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense	62,963	64,903
Mortgage discount	112,006	145,965
Mortgage discount amortization	(97,326)	(98,565)
Bad debts (recovery)	522	(26,416)
Changes in assets and liabilities:		
(Increase) decrease in:		
Mortgages receivable	(2,126)	(60,126)
Contributions receivable	(30,845)	24,396
Property held for sale	147,786	24,218
Prepaid expenses and other current assets	858	(16,181)
Uninstalled materials	25,042	(40,102)
Construction in progress	(192,030)	39,642
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>98,394</u>	<u>(80,273)</u>
Net cash used in operating activities	<u>(43,722)</u>	<u>(371,718)</u>
Investing activities:		
Acquisition of property and equipment	<u>-</u>	<u>(3,000)</u>
Net cash used in investing activities	<u>-</u>	<u>(3,000)</u>
Financing activities:		
Net proceeds from line of credit	85,000	215,000
Proceeds on borrowings from long-term debt	<u>85,100</u>	<u>-</u>
Net cash provided by financing activities	<u>170,100</u>	<u>215,000</u>
Net increase (decrease) in cash and cash equivalents	126,378	(159,718)
Cash and cash equivalents - beginning	<u>46,522</u>	<u>206,240</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 172,900</u></b>	<b><u>\$ 46,522</u></b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 11,422</u>	<u>\$ 6,450</u>

See accompanying notes to financial statements.



**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**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, 2018 and 2017, the Organization sold two homes and at June 30, 2018 and 2017 there are nine and six 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 hundreds of tons of 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:

*Unrestricted net assets* - 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, 2018 and 2017, there were no board designated net assets.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

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

Financial Statement Presentation (continued)

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may be met either by actions of the Organization and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. At June 30, 2018 and 2017, the Organization did not have permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions are recognized as an increase to net assets when the donor makes a promise to give to the Organization that is, in substance, unconditional. All donor restricted support is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

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.

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.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

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

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 3). 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, 2018 and 2017 were \$220,219 and \$104,409, 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, 2018 and 2017, the allowance for doubtful accounts was \$21,179 and \$20,657, 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

The Organization had contributions receivable at June 30, 2018 and 2017 of \$72,100 and \$41,255, respectively. Contributions receivable are expected to be collected within one year and are recorded at net realizable value.

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 2018 and 2017.

The Organization has town approved grants that are conditional on the Organization incurring and submitting documentation of project related construction expenses. The Organization will record the revenue from the conditional grants when they become unconditional and expects to receive approximately an additional \$364,000 in conditional grants over the remaining term of the existing project.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**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, 2018 and 2017, inventory was valued at \$44,135 and \$79,314, respectively, which is net of a reserve for future markdowns of inventory held. The reserve for inventory markdowns was \$15,900 and \$32,040 at June 30, 2018 and 2017, 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, 2018 and 2017, uninstalled construction materials are valued at \$54,136 and \$43,999, 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. 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, which was \$53,041 and \$16,790 at June 30, 2018 and June 30, 2017, respectively.

Property and Equipment

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

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.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

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

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.

Income Taxes

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.

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. Management believes the Organization has no material uncertainties in income taxes.

Recently Issued But Not Yet Effective Accounting Pronouncements

In February 2016, the FASB issued ASU("Accounting Standard Update") No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases 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 the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2019, with early adoption permitted. The Organization is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), 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. This ASU will replace most existing revenue recognition guidance in US GAAP, including industry specific guidance, when it becomes effective. This new guidance is effective for years beginning after December 15, 2018. The Organization is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* ("ASU 2016-14"), which reduces the number of net asset classes from three to two and increases disclosures about liquidity risks, among other changes. This ASU is effective for years beginning after December 15, 2017. The Organization is evaluating the effect that ASU 2016-14 will have on its financial statements and related disclosures.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

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

Subsequent Events

The Organization has evaluated all events subsequent to the statement of financial position date of June 30, 2018, through the date which the financial statements were available to be issued, September 27, 2018, and has determined that there are no subsequent events that require disclosure under FASB ASC Topic *Subsequent Events*.

**NOTE 3. 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 9.00%. For the years ended June 30, 2018 and 2017, newly issued mortgages receivable were discounted by 7.57% and 7.47%, respectively.

The mortgages receivable at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Total mortgages receivable	\$ 2,356,299	\$ 2,354,174
Less unamortized discount	1,325,575	1,310,896
Less allowance for doubtful accounts	<u>21,179</u>	<u>20,657</u>
	1,009,545	1,022,621
Less current portion of mortgages receivable	<u>174,039</u>	<u>181,053</u>
	<u>\$ 835,506</u>	<u>\$ 841,568</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>
2019	\$ 174,039
2020	163,859
2021	152,809
2022	148,515
2023	144,759
Thereafter	<u>1,572,318</u>
	<u>\$ 2,356,299</u>

**NOTE 4. PROPERTY HELD FOR SALE**

At June 30, 2017, property held for sale of \$147,786 represented a property repurchased by the Organization, rehabilitated for resale, and sold in 2018. There are no properties held for sale at June 30, 2018.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5. PROPERTY AND EQUIPMENT**

Following is a summary of property and equipment as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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>156,299</u>	<u>93,336</u>
Property and equipment, net	<u>\$ 168,215</u>	<u>\$ 231,178</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% (5.00% and 4.25% at June 30, 2018 and 2017, respectively). The line of credit is due on demand and expires on January 31, 2019. It is management's intention to renew the line of credit in 2019. The line of credit is secured by substantially all assets and thirteen mortgage notes receivable. There were borrowings outstanding of \$300,000 and \$215,000 at June 30, 2018 and 2017, 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, at which time the principal and any accrued interest will be due in full. 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% (5.25% at June 30, 2018). 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 \$85,100 at June 30, 2018.

**NOTE 8. OPERATING LEASES**

The Organization leases its office space through a lease agreement expiring in May 2022. During 2018, monthly payments under this lease ranged from \$5,650 to \$5,850. 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 2018, monthly payments under this lease were \$11,563. 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 leases various equipment under operating leases expiring at various dates through April, 2019. For the years ended June 30, 2018 and 2017, total rent expense was \$313,038 and \$294,809, respectively.

**SOUTH SHORE HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 8. OPERATING LEASES (CONTINUED)**

Future minimum lease payments under operating leases by year and in the aggregate at June 30, 2018, consist of the following:

<u>Year Ending June 30:</u>	<u>Amount</u>
2019	\$ 241,013
2020	232,700
2021	240,725
2022	<u>114,400</u>
	<u>\$ 828,838</u>

**NOTE 9. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of contributions restricted for construction in various locations, future purchases of equipment, and salary for the VP of Development. The following is a summary of contributions with purpose restrictions:

	<u>2018</u>	<u>2017</u>
Construction of homes - specific locations	\$ 339,554	\$ 123,727
VP of Development salary	<u>-</u>	<u>37,250</u>
	<u>\$ 339,554</u>	<u>\$ 160,977</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2018</u>	<u>2017</u>
VP of Development salary	\$ 148,750	\$ 149,250
Construction of homes - specific locations	40,364	171,082
ReStore expenses	29,962	54,566
Community outreach initiative	-	2,213
Transportation	<u>-</u>	<u>1,593</u>
	<u>\$ 219,076</u>	<u>\$ 378,704</u>

**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. The fee was subject to a phase-in period during earlier years.

The Organization pays an additional title to HFHI based on homes sold. For the years ended June 30, 2018 and 2017, the Organization paid fees of \$22,752 and \$19,500, respectively. The fixed portion of fees required to be paid through 2019 are \$15,000 each year.