

**COMMUNITAS, INC.
AND AFFILIATES**

Consolidated Financial Statements

Year ended June 30, 2024

COMMUNITAS, INC. AND AFFILIATES

Consolidated Financial Statements

Year ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Communitas, Inc. and Affiliates
Wakefield, Massachusetts

Opinion

We have audited the accompanying consolidated financial statements of Communitas Inc. (a Massachusetts nonprofit corporation) and Affiliates (collectively the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2024, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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.

INDEPENDENT AUDITOR'S REPORT

(continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 judgement made by a reasonable user based on the consolidated 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 consolidated 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 consolidated 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 the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Leonard, Mulherin & Greene, P.C.

LEONARD, MULHERIN & GREENE, P.C.
Braintree, Massachusetts

November 13, 2024

COMMUNITAS, INC. AND AFFILIATES

Consolidated Statement of Financial Position

June 30, 2024

(with comparative totals for 2023)

	2024			2023
	Current Operations	Plant	Total	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 2,671,067	\$ -	\$ 2,671,067	\$ 1,710,696
Tenant deposits held in trust	5,994	-	5,994	5,993
Accounts receivable, net of allowance for credit losses	2,842,144	-	2,842,144	2,579,796
Prepaid expenses	365,691	-	365,691	327,540
Other receivable - employee retention tax credit	-	-	-	1,412,182
Contribution receivable	-	-	-	3,500
Total current assets	5,884,896	-	5,884,896	6,039,707
PROPERTY AND EQUIPMENT, NET	-	5,082,665	5,082,665	4,896,470
OTHER ASSETS				
Operating leases, right-of-use, net	-	4,938,283	4,938,283	5,959,316
Restricted deposits	-	261,677	261,677	255,574
Other assets	114,833	-	114,833	114,677
Total assets	\$ 5,999,729	\$ 10,282,625	\$ 16,282,354	\$ 17,265,744
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 616,194	\$ -	\$ 616,194	\$ 507,343
Accrued expenses	729,365	-	729,365	763,005
Deferred revenue	11,461	-	11,461	-
Tenant security deposits	5,994	-	5,994	5,993
Operating lease liabilities, current portion	-	1,050,830	1,050,830	1,021,036
Long-term debt, current portion	-	231,974	231,974	195,984
Total current liabilities	1,363,014	1,282,804	2,645,818	2,493,361
LONG-TERM LIABILITIES				
Operating lease liabilities, less current portion	-	3,887,453	3,887,453	4,938,280
Loans payable - CEDAC, less unamortized loan acquisition costs	-	1,668,804	1,668,804	1,663,503
Long-term debt, less current portion and unamortized loan acquisition costs	-	1,640,391	1,640,391	1,403,225
Total liabilities	1,363,014	8,479,452	9,842,466	10,498,369
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Without donor restrictions	4,636,715	654,273	5,290,988	5,618,475
With donor restrictions	-	1,148,900	1,148,900	1,148,900
Total net assets	4,636,715	1,803,173	6,439,888	6,767,375
Total liabilities and net assets	\$ 5,999,729	\$ 10,282,625	\$ 16,282,354	\$ 17,265,744

The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITAS, INC. AND AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2024

(with comparative totals for 2023)

	2024		2023	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, SUPPORT AND GAINS				
Program service fees	\$ 18,661,649	\$ -	\$ 18,661,649	\$ 17,181,443
Contributions	164,179	-	164,179	174,578
Contributions of nonfinancial assets	1,075	-	1,075	3,013
Grants	32,740	-	32,740	41,592
Revenue from commercial products and services	47,815	-	47,815	53,123
Other revenue	118,137	-	118,137	35,052
Investment income	1,661	-	1,661	344
Employee retention tax credit refund	-	-	-	1,412,182
Total revenue, support and gains	19,027,256	-	19,027,256	18,901,327
EXPENSES				
Program Services				
Residential services	7,241,180	-	7,241,180	7,187,241
Day habilitation	4,033,071	-	4,033,071	3,732,804
Family support	2,003,154	-	2,003,154	1,488,131
Adult foster care	1,281,319	-	1,281,319	1,267,653
Day, employment and transportation	969,340	-	969,340	980,108
Supported living	579,563	-	579,563	576,442
Agency with choice	443,188	-	443,188	405,093
Group homes - HUD	193,658	-	193,658	208,734
Recreation	150,379	-	150,379	98,019
SSQUAL	18,850	-	18,850	17,407
Total program services	16,913,702	-	16,913,702	15,961,632
Supporting Services				
Management and general	2,421,513	-	2,421,513	2,328,357
Fundraising	19,528	-	19,528	6,402
Total supporting services	2,441,041	-	2,441,041	2,334,759
Total expenses	19,354,743	-	19,354,743	18,296,391
CHANGE IN NET ASSETS	(327,487)	-	(327,487)	604,936
NET ASSETS, beginning of year	5,618,475	1,148,900	6,767,375	6,162,439
NET ASSETS, end of year	\$ 5,290,988	\$ 1,148,900	\$ 6,439,888	\$ 6,767,375

The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITAS, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses

Year ended June 30, 2024

(with comparative totals for 2023)

	2024					
	Employee Compensation and Related	Occupancy	Program and Operating	Administrative	Depreciation	Total
Program Services						
Residential services	\$ 5,722,101	\$ 383,992	\$ 925,529	\$ 106,029	\$ 103,529	\$ 7,241,180
Day habilitation	1,911,144	988,411	832,318	146,033	155,165	4,033,071
Family support	756,045	89,043	1,142,871	15,195	-	2,003,154
Adult foster care	402,972	266	865,156	12,925	-	1,281,319
Day, employment and transportation	518,875	245,658	134,329	36,862	33,616	969,340
Supported living	407,652	100,421	19,533	20,068	31,889	579,563
Agency with choice	386,718	29	56,082	359	-	443,188
Group homes - HUD	-	97,464	-	23,238	72,956	193,658
Recreation	88,640	200	8,296	53,243	-	150,379
SSQUAL	18,718	-	132	-	-	18,850
Total program services	10,212,865	1,905,484	3,984,246	413,952	397,155	16,913,702
Supporting Services						
Management and general	1,267,320	205,928	30,225	858,723	59,317	2,421,513
Fundraising	-	602	-	18,926	-	19,528
Total supporting services	1,267,320	206,530	30,225	877,649	59,317	2,441,041
Total expenses - 2024	\$ 11,480,185	\$ 2,112,014	\$ 4,014,471	\$ 1,291,601	\$ 456,472	\$ 19,354,743
Total expenses - 2023	\$ 10,984,343	\$ 2,025,633	\$ 3,375,580	\$ 1,419,714	\$ 491,121	\$ 18,296,391

The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITAS, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2024

(with comparative totals for 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (327,487)	\$ 604,936
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	456,472	491,121
Amortization of loan acquisition costs	5,653	5,653
Gain on disposal of property and equipment	(36,758)	(35,052)
(Increase) decrease in asset accounts		
Accounts receivable	(262,348)	(498,848)
Other receivable - employee retention tax credit	1,412,182	(273,219)
Prepaid expenses	(38,151)	67,910
Contribution receivable	3,500	-
Other assets	(156)	1,148
Increase (decrease) in liability accounts		
Accounts payable	108,851	41,717
Accrued expenses	(33,640)	213,776
Deferred revenue	11,461	-
Tenant security deposits	1	-
Net cash provided by (used in) operating activities	1,299,580	619,142
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(147,561)	(234,990)
Proceeds from disposal of property and equipment	36,758	35,052
Net cash provided by (used in) investing activities	(110,803)	(199,938)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(222,302)	(239,300)
Net cash provided by (used in) financing activities	(222,302)	(239,300)
Net increase (decrease) in cash and cash equivalents	966,475	179,904
Cash, cash equivalents and restricted cash, beginning of year	1,972,263	1,792,359
Cash, cash equivalents and restricted cash, end of year	\$ 2,938,738	\$ 1,972,263
SUPPLEMENTARY DISCLOSURES		
Cash paid for interest	\$ 95,262	\$ 85,351

The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Communitas, Inc. (“Communitas”) is a nonprofit organization which provides various programs in family support, residential, vocational and day habilitation services for people with developmental disabilities and their families so that they can lead more independent lives.

Communitas operates various group homes whose tenants receive services through programs it provides. Three of the group homes, which are located in Reading, Massachusetts, are operated under Section 811 of the National Affordable Housing Act and are regulated by the U.S. Department of Housing and Urban Development (“HUD”) with respect to rental charges and operating methods. Legal titles to these three group homes are held by Reading Residential Programs, Inc. (“Reading Residential”) and Hopkins Street Housing Corporation (“Hopkins Street”).

Organization

Communitas, Reading Residential and Hopkins Street are related by common members on their boards of directors and common management control.

Principles of Consolidation

These consolidated financial statements include the accounts of Communitas, Reading Residential and Hopkins Street (collectively the “Organization”) as Communitas’ control over these organizations meets the criteria for consolidation set forth by accounting principles generally accepted in the United States of America (“GAAP”). All material inter-organization transactions and balances have been eliminated.

Basis of Accounting

These consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

Change in Accounting Principle

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This ASU replaces the previous “incurred loss” methodology for measuring credit losses related to certain financial assets and requires the consideration of relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of financial assets. The Organization adopted this standard for the year ended June 30, 2024, which did not have a material impact on the consolidated financial statements.

Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

The Organization applies the provisions of GAAP for fair value measurements of financial assets and financial liabilities and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the consolidated financial statements on a recurring basis. These provisions define fair value as the price that would be received in selling an asset or paid in transferring a liability in an orderly transaction between market participants at the measurement date. The provisions also establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Application of these provisions did not result in any change in the measurement of the carrying value of the Organization's financial assets or liabilities.

Cash, Cash Equivalents and Restricted Cash

For purposes of the Consolidated Statement of Cash Flows, the Organization considers all highly liquid investments, excluding tenant security deposits and other restricted deposits, with maturities of three months or less to be cash equivalents. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Statement of Financial Position to the sum of those amounts reported in the Consolidated Statement of Cash Flows as of June 30:

	2024	2023
Cash and cash equivalents	\$ 2,671,067	\$ 1,710,696
Tenant deposits held in trust	5,994	5,993
Restricted deposits	261,677	255,574
Total cash, cash equivalents and restricted cash	\$ 2,938,738	\$ 1,972,263

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded net of any allowance for credit losses and are reported as a single portfolio segment. Management considers relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of accounts receivable in connection with estimating any allowance for credit losses. The allowance estimate is derived from a review of the Organization's historical losses based on historical loss rates. In addition, at each reporting date, this estimate is updated to reflect any changes in credit risk since the accounts receivable were initially recorded. As applicable, this estimate is calculated by pooling amounts with similar characteristics. In addition, as applicable, an account receivable is evaluated individually when specific facts and circumstances indicate it may not be collectible. Risk characteristics used by the Organization to pool accounts receivable amounts consisted of historical or expected credit loss patterns.

Activity in the allowance for credit losses for accounts receivable is as follows for the year ended June 30, 2024:

Beginning balance, July 1, 2023	\$ 4,617
Credit loss expense	-
Write-offs charged against the allowance	-
Ending balance, June 30, 2024	\$ 4,617

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost on date of acquisition or at fair market value on date of donation. Major additions to property and equipment are capitalized while expenditures for maintenance and repairs are expensed as incurred.

Depreciation of buildings, improvements, vehicles, furniture and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets as follows:

	Lives in Years
Buildings and improvements	5-40
Furniture and equipment	5-20
Vehicles	5-6

Leases

The Organization applies Accounting Standards Codification (“ASC”) 842, *Leases* (“ASC 842”), in determining whether an arrangement is or contains a lease at the lease inception. An arrangement is considered to include a lease if it conveys the right to control the use of identified property or equipment for a period of time in excess of twelve months in exchange for consideration. The Organization defines control of the asset as the right to obtain substantially all of the economic benefits from use of the identified asset as well as the right to direct the use of the identified asset. The Organization further determined all of its existing leases are operating leases, which are included as right-of-use (“ROU”) assets and lease liabilities in the Consolidated Statement of Financial Position. ROU assets represent the Organization’s right to use leased assets over the term of the lease. Lease liabilities represent the Organization’s contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted by any initial direct costs, deferred rent liability and lease incentives. ROU assets and lease liabilities are recognized at the lease commencement date. The Organization uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Organization uses the risk-free rate as permitted in ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*. The risk-free rate is applied to all classes of leased assets. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Organization’s lease agreements do not contain any material residual value guarantees or material restrictive covenants and to the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately. In addition, the Organization applies the short-term lease exemption of not recognizing a ROU asset and lease liability for leases that have terms of 12 months or less.

Loan Acquisition Costs

In accordance with GAAP, the Organization presents loan acquisition costs related to a recognized debt obligation as a direct reduction of the carrying amount of the related debt on the Consolidated Statement of Financial Position. Additionally, amortization of the loan acquisition costs is reported as interest expense.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Retention Tax Credit

During the year ended June 30, 2023, the Organization applied for Employee Retention Tax Credits (“ERTC”) as part of the CARES Act. The purpose of the ERTC is to give qualifying employers a refundable tax credit based on qualified wages paid to employees during the period from March 13, 2020 through September 30, 2021. During the year ended June 30, 2023, the Organization recognized an ERTC refund in the amount of \$1,412,182 on the accompanying Consolidated Statement of Activities.

Net Assets

Net assets, revenue, support, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Consist of net assets available for use in general operations that are not subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Consist of net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or the expending of the net assets for particular purposes as specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the principal is to be maintained in perpetuity (donor-restricted endowment) and only the income from such net assets may be expended as specified by the donor or in accordance with the applicable Massachusetts law. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released to net assets without donor restrictions when the assets are placed in service. Donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases to net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities as net assets released from restrictions.

Net assets with donor restrictions are restricted for the following purposes at June 30, 2024:

Subject to time and purpose restrictions:

Section 811 capital advances (see Note 8)	\$1,148,900
Total subject to time and purpose restrictions	1,148,900
Total net assets with donor restrictions	\$1,148,900

There were no net assets released from donor restrictions during the year ended June 30, 2024.

Revenue Recognition and Surplus Revenue Retention

The majority of the Organization's clients are supported by government agencies within the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division (“OSD”). Revenue is recorded at the Organization's rate of reimbursement as certified by OSD. Revenues are recognized as earned over the period services are performed.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition and Surplus Revenue Retention (continued)

Under the applicable Commonwealth of Massachusetts regulation, the Organization may not retain an annual surplus in excess of 20% of its Commonwealth of Massachusetts Purchase of Service (“POS”) revenues. A surplus in excess of the annual 20% limit is subject to recoupment or may be used to reduce future Commonwealth of Massachusetts POS revenues. During the year ended June 30, 2024, the Organization did not have an annual surplus related to its Commonwealth of Massachusetts POS revenues in excess of the 20% limit allowed under the applicable regulation. Non-POS revenues are not subject to the regulation but may be subject to other regulatory or contractual limitations.

Contributions

Contributions are recognized at the earlier of when received or when a donor declares an unconditional promise to give cash or other assets to the Organization. Conditional promises to give, that is, those with a measurable performance or other barriers to be overcome before the Organization is entitled to the assets transferred or promised, and a right of return or release, are not recognized as contributions revenue until the conditions have been substantially met or waived.

Rental Income

The Organization receives a portion of its rental revenue from HUD in the form of rent subsidies. Rent received from HUD totaled \$118,556 and \$113,492 for the years ended June 30, 2024 and 2023, respectively, and is included in program service fees in the accompanying Consolidated Statement of Activities. Under the terms of its regulatory agreements, the Organization may not increase rents charged to tenants without HUD approval.

Contributed Nonfinancial Assets

The Organization records donated assets at the fair market value on the date the assets are unconditionally promised to the Organization. Donated services are recorded at fair market value on the date the services are provided if the services create or enhance nonfinancial assets or the services are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation.

For the years ended June 30, contributed nonfinancial assets recognized within the Consolidated Statement of Activities included:

	2024	2023
Furniture, equipment and supplies	\$ 1,075	\$ 3,013
Total contributions of nonfinancial assets	\$ 1,075	\$ 3,013

The Organization estimated the fair values of the above items on the basis of values that would be received from the sale of similar items in the United States.

Advertising

Advertising costs, which relate primarily to promotional materials and employee recruitment, are expensed as incurred and totaled \$64,212 and \$110,252 for the years ended June 30, 2024 and 2023, respectively.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the Consolidated Statement of Activities. The Consolidated Statement of Functional Expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include employee compensation and related (consisting of salaries, payroll taxes and benefits), occupancy, various other program and administrative costs, and depreciation. These expenses have been allocated on the basis of estimated time and effort, square footage as well as other reasonable allocation methods.

Distributions

The Organization's regulatory agreements with HUD stipulate, among other things, that it will not make distributions of assets or income to any of its officers or directors.

Tax Status

Communitas, Reading Residential and Hopkins Street (the "entities") each qualify under Section 501(c)(3) of the Internal Revenue Code (the "Code") as exempt from federal and state income taxes. These entities are not private foundations within the meaning of Section 509(a) of the Code.

The entities are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The entities believe they are no longer subject to income tax examinations for years prior to 2021.

Comparative Financial Information

The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the prior year from which the summarized information was derived.

Subsequent Events

The Organization evaluated events that occurred after June 30, 2024, the date of the Consolidated Statement of Financial Position, but before the date the consolidated financial statements were available to be issued, November 13, 2024, for potential recognition or disclosure in the consolidated financial statements. The Organization did not identify any subsequent events that had a material effect on the accompanying consolidated financial statements.

2 - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of its programs as well as the conduct of services undertaken to support those activities to be general expenditures.

COMMUNITAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
June 30, 2024

2 - LIQUIDITY AND AVAILABILITY (continued)

At June 30, 2024, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Consolidated Statement of Financial Position date consist of the following:

Cash and cash equivalents	\$2,671,067
Accounts receivable, net	2,842,144
Total financial assets available within one year	\$5,513,211

In addition, Reading Residential and Hopkins Street maintain funds in replacement reserve and residual receipts reserve accounts totaling \$177,560 at June 30, 2024. These funds are used for the benefit of those entities and/or their tenants and are required to be maintained by HUD. The funds may be withdrawn only with the approval of HUD and are not considered to have donor restrictions.

The Organization also has a line of credit (see Note 5) that allows for additional borrowings of up to \$500,000 for working capital purposes. There were no amounts borrowed under this arrangement at June 30, 2024.

3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2024	2023
Land	\$ 1,580,982	\$ 1,580,982
Buildings and improvements	6,890,233	6,787,238
Furniture and equipment	1,863,567	1,820,699
Vehicles	1,484,335	1,202,631
	11,819,117	11,391,550
Less accumulated depreciation	(6,736,452)	(6,495,080)
Total property and equipment	\$ 5,082,665	\$ 4,896,470
Depreciation expense	\$ 456,472	\$ 491,121

4 – RESTRICTED DEPOSITS

Under its regulatory agreements, the Organization is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. These restricted deposits are held in separate accounts and are not available for operating purposes. In addition, the Organization is required to maintain residual receipts reserves, releases from which are also subject to approval by HUD. The Organization's HUD-restricted deposits totaled \$177,560 and \$172,948 at June 30, 2024 and 2023, respectively.

Also included in restricted deposits is an account held at a bank that the Organization is required to maintain as collateral in connection with one of its mortgage loan agreements described in Note 6. The balance in this account totaled \$84,117 and \$82,626 at June 30, 2024 and 2023, respectively.

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5 – LINE OF CREDIT

The Organization maintains a \$500,000 line of credit with a bank, which is secured by all business assets of the Organization, to support its working capital needs. The outstanding principal is due on demand and interest is charged at the bank's prime lending rate plus 1% (9.50% and 9.25% at June 30, 2024 and June 30, 2023, respectively). There was no balance outstanding on the line of credit at June 30, 2024 and 2023. No interest expense was incurred on the line of credit during the years ended June 30, 2024 and 2023.

6 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2024	2023
Loans payable to banks, payable in monthly installments of principal and interest ranging from \$797 to \$3,750 through August 2035. The loans payable bear interest at rates ranging from 2.875% to 6.19% per annum and are secured by certain real property of the Organization.	\$1,364,229	\$1,492,435
Loans payable to finance companies, secured by motor vehicles, payable in monthly installments of principal and interest ranging from \$664 to \$1,611 through December 2029. The loans bear interest at rates ranging from 5.99% to 10.34%.	517,641	116,631
	1,881,870	1,609,066
Less current portion	(231,974)	(195,984)
Less unamortized loan acquisition costs	(9,505)	(9,857)
	\$1,640,391	\$1,403,225

Long-term debt maturities are as follows for the years ending June 30:

2025	\$ 231,974
2026	242,865
2027	259,880
2028	250,312
2029	204,583
Thereafter	692,256
	\$ 1,881,870

The Organization incurred loan acquisition costs totaling \$14,071 in connection with the above loans payable.

The unamortized balance of these loan acquisition costs, which are being amortized over the terms of the related loans, totaled \$9,505 and \$9,857 as of June 30, 2024 and 2023, respectively. The amortization of these costs totaled \$352 for each of the years ended June 30, 2024 and 2023 and is included in interest expense described below.

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6 – LONG-TERM DEBT (continued)

The Organization incurred interest costs of \$100,915 and \$91,004, all of which was expensed, during the years ended June 30, 2024 and 2023, respectively, in connection with the above loans. Interest expense for both years also includes amortization of loan acquisition costs related to the CEDAC financing described in Note 7. In addition, the Organization is subject to various covenants under the terms of certain of the above loan agreements.

During the year ended June 30, 2024, the Organization was not in compliance with a covenant applicable to certain of the above loans. The effected bank provided a waiver for this matter of noncompliance for the year ended June 30, 2024.

7 – LOANS PAYABLE - CEDAC

The Organization has entered into nine non-interest bearing loan agreements with the Community Economic Development Assistance Corporation (“CEDAC”) for the purpose of obtaining supplemental financing related to the acquisition and rehabilitation of nine of its group homes, one of which also received capital advance funding from HUD (see Note 8).

Albion Street

This loan agreement, which was entered into in 2001, provided funding totaling \$58,645. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts.

Range Heights Road

This loan agreement, which was entered into in 2002, provided funding totaling \$111,027. The loan is secured by a second mortgage on the property, located in Lynn, Massachusetts.

Nahant Street

This loan agreement, which was entered into in 2002, provided funding totaling \$164,973. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts.

Newcomb Avenue

This loan agreement, which was entered into in 2003, provided funding totaling \$169,159. The loan is secured by a second mortgage on the property, located in Saugus, Massachusetts.

Nahant Street

This loan agreement, which was entered into in 2007, provided funding totaling \$244,525. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts.

Main Street

This loan agreement, which was entered into in 2007, provided funding totaling \$148,956. The loan is secured by a second mortgage on the property, located in Reading, Massachusetts.

Water Street

This loan agreement, which was entered into in 2007, provided funding totaling \$429,736. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts.

Spruce Street

This loan agreement, which was entered into in 2008, provided funding totaling \$350,000. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts.

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7 – LOANS PAYABLE – CEDAC (continued)

Hopkins Street Housing Corporation

This loan agreement, which was entered into in 2001 provided funding totaling \$112,363. The loan is secured by a second mortgage on the property, located in Wakefield, Massachusetts, and is subordinate to the security interest underlying HUD's capital advance (see Note 8).

As long as the Organization's related capital advance with HUD remains outstanding, no principal or interest is due or payable on the Hopkins Street loan from CEDAC. However, for the other eight CEDAC loans, within 45 days after the end of each of the Organization's fiscal years, the Organization shall pay CEDAC the amount by which each property's Gross Cash Receipts, as defined, for the fiscal year exceed 105% of Gross Cash Expenditures, as defined. Amounts paid pursuant to this provision shall be applied to the outstanding principal balance of the respective loan. The loans are due and payable 30 years from their original dates.

If upon maturity all amounts due have not been paid in full, subject to certain conditions, CEDAC may extend the maturity date of the loan for additional periods of up to ten years each. No interest shall accrue on outstanding amounts during such extension periods.

The outstanding loan balances under these financing arrangements totaled \$1,789,384 at June 30, 2024 and 2023. The accompanying Consolidated Statement of Financial Position reports these loans net of unamortized loan acquisition costs (described below) totaling \$120,580 and \$125,881 at June 30, 2024 and 2023, respectively.

The Organization incurred loan acquisition costs totaling \$199,331 in connection with the above CEDAC loans payable. The unamortized balance of these loan acquisition costs, which are being amortized over the terms of the related loans, totaled \$120,580 and \$125,881 as of June 30, 2024 and 2023, respectively. The amortization of these costs totaled \$5,301 for each of the years ended June 30, 2024 and 2023 and is included in interest expense described in Note 6.

8 – CAPITAL ADVANCES – HUD

The Organization has entered into two non-interest-bearing Capital Advance Agreements (the "Agreements") with HUD for the purpose of acquiring and rehabilitating its three group homes that are operated under Section 811 of the National Affordable Housing Act.

Reading Residential Programs, Inc.

This Agreement, which was entered into in 1996, provided funding totaling \$817,400 and is secured by 40-year mortgages on the project's group homes in Reading, Massachusetts.

Hopkins Street Housing Corporation

This Agreement, which was entered into in 2001, provided funding totaling \$331,500 and is secured by a 40-year mortgage on the project's group home in Reading, Massachusetts.

Each of the Agreements provide that if (1) the housing has remained available for occupancy by eligible individuals until the maturity dates of the mortgage notes, and (2) the mortgage notes have not otherwise become due and payable by reason of default under the mortgage notes, mortgages or regulatory agreements, on that date the mortgage note shall be deemed paid and discharged.

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8 – CAPITAL ADVANCES – HUD (continued)

Because the Organization intends to meet both of these conditions and does not expect to be required to repay the capital advances, all monies received under this program have been recognized as net assets with donor restrictions.

9 – LEASES

Operating Leases

The Organization maintains operating leases for administrative and program purposes with lease expiration dates through December 31, 2031. Payments under these lease arrangements are all fixed.

As of June 30, 2024 and 2023, assets recorded under operating leases totaled \$6,952,172 with related accumulated amortization of \$2,013,889 and \$992,856, respectively.

The weighted-average remaining lease term related to the Organization's operating lease liabilities as of June 30, 2024 and 2023 was 5.34 years and 6.18 years, respectively, and the weighted-average discount rate was 2.88% as of June 30, 2024 and 2023.

Operating lease liability maturities for the years ending June 30 are as follows:

2025	\$ 1,179,253
2026	1,179,253
2027	1,179,253
2028	520,380
2029	364,837
Thereafter	912,090
Total undiscounted lease payments	5,335,066
Less imputed interest	(396,783)
Total operating lease liability	4,938,283
Less current portion	1,050,830
	<u>\$ 3,887,453</u>

Lease expenses from operating leases totaled \$1,313,980 and \$1,265,084 for the years ended June 30, 2024 and 2023, respectively.

10 – RETIREMENT PLAN

The Organization has established a salary deferral 401(k) plan (the "Plan") that allows employees to contribute a portion of their compensation to the Plan on a tax-deferred basis. Under the provisions of the Plan, eligible employees may defer up to 75% of their compensation, subject to statutory limits. The Organization may make additional discretionary contributions to the Plan determined annually by the Board of Directors. There were no employer contributions made to the Plan during the years ended June 30, 2024 and 2023.

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Notes to Consolidated Financial Statements

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11 – CONTINGENCIES AND CONCENTRATIONS OF CREDIT RISK

Contingencies

In accordance with the terms of its contracts with the Commonwealth of Massachusetts, the records of the Organization are subject to audit. The Organization is, therefore, contingently liable for any disallowed costs. Management believes that any adjustment that might result from such an audit would be immaterial.

Concentrations of Credit Risk

A significant portion of the Organization's revenue and receivables are from the Commonwealth of Massachusetts, Department of Developmental Services.

In addition, the operations of certain group homes of the Organization are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or with inadequate funding for the related cost, including additional administrative burden, to comply with a change.

12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for amounts included in the measurement of the operating lease liabilities during each of the years ended June 30, 2024 and 2023 totaled \$1,179,253.

Noncash Transactions

During the years ended June 30, 2024 and 2023, the Organization acquired vehicles with dealer-financing in the amounts of \$495,106 and \$67,317, respectively.

During the year ended June 30, 2023, the Organization recognized operating lease right-of-use assets and liabilities upon the adoption of ASC 842 in the amount of \$6,952,172.