

**HABITAT FOR HUMANITY OF
BUCKS COUNTY, INC.**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

**HABITAT FOR HUMANITY OF
BUCKS COUNTY, INC.**

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BAUM, SMITH & CLEMENS, LLP

CERTIFIED PUBLIC ACCOUNTANTS and BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity of Bucks County, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Bucks County, Inc. (a not-for-profit organization), which are comprised of the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, 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 U.S. generally accepted accounting principles; 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 Habitat for Humanity of Bucks County, Inc. as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Baum, Smith & Clemens, LLP

Lansdale, PA
November 17, 2016

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current		
Cash - operating	\$ 383,233	\$ 253,470
Mortgages receivable, current	109,613	112,613
Notes and loans receivable, current	10,604	11,786
Other receivables	23,433	110,603
Construction in progress	780,132	678,796
Inventory	116,298	53,953
Prepaid expenses	43,649	26,057
Total current assets	1,466,962	1,247,278
Property and equipment, net	177,588	44,957
Other		
Mortgages receivable, net of current portion and discount	895,825	918,195
Notes and loans receivable, net of current portion	109,205	109,489
Cash - money market	204,479	199,290
Marketable securities	4,414,763	4,357,150
Investment in joint venture	4,102,714	4,040,860
Intangibles, net	100,858	112,960
Cash - restricted (NMTC)	19,941	45,204
Property held for sale	100,000	100,000
Miscellaneous	32,106	14,459
Total other assets	9,979,891	9,897,607
Total assets	\$ 11,624,441	\$ 11,189,842
LIABILITIES		
Current		
Current portion of long-term debt	\$ 601,411	\$ -
Line of credit	599,427	414,427
Accounts payable and accrued expenses	124,004	97,658
Total current liabilities	1,324,842	512,085
Long-term debt, net of current portion	4,002,726	4,571,637
Total liabilities	5,327,568	5,083,722
NET ASSETS		
Unrestricted	6,248,873	5,981,096
Temporarily restricted	48,000	125,024
Total net assets	6,296,873	6,106,120
Total liabilities and net assets	\$ 11,624,441	\$ 11,189,842

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 535,319	\$ 20,000	\$ 555,319	\$1,113,120	\$ 25,500	\$1,138,620
In-kind contributions	25,275	-	25,275	80,525	28,000	108,525
Fundraising activities, net	103,418	-	103,418	104,346	-	104,346
Sale of homes to Habitat homeowners	150,000	-	150,000	1,281,000	-	1,281,000
Amortization of mortgage discounts	77,766	-	77,766	77,234	-	77,234
Restore activity, from contributed inventory	932,351	-	932,351	485,835	-	485,835
Investment income	84,317	-	84,317	147,300	-	147,300
Other income	148,508	-	148,508	127,058	-	127,058
Net assets, released from restriction	97,024	(97,024)	-	37,500	(37,500)	-
Total support and revenue	2,153,978	(77,024)	2,076,954	3,453,918	16,000	3,469,918
EXPENSES						
Program services	1,558,608	-	1,558,608	2,439,901	-	2,439,901
Management and general	202,201	-	202,201	208,489	-	208,489
Fundraising expenses	125,392	-	125,392	124,138	-	124,138
Total expenses	1,886,201	-	1,886,201	2,772,528	-	2,772,528
Change in net assets	267,777	(77,024)	190,753	681,390	16,000	697,390
Net assets, beginning of year	5,981,096	125,024	6,106,120	5,299,706	109,024	5,408,730
Net assets, end of year	<u>\$ 6,248,873</u>	<u>\$ 48,000</u>	<u>\$ 6,296,873</u>	<u>\$ 5,981,096</u>	<u>\$ 125,024</u>	<u>\$ 6,106,120</u>

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Homeownership</u>	<u>ReStore</u>	<u>Total Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Costs of homes sold to homeowners	\$ 222,707	\$ -	\$ 222,707	\$ -	\$ -	\$ 222,707
Impairment on property	80,000	-	80,000	-	-	80,000
Salaries	258,269	274,657	532,926	112,365	71,719	717,010
Payroll taxes	28,557	28,619	57,176	9,684	6,198	73,058
Fringe benefits	32,832	42,373	75,205	3,648	8,099	86,952
Interest expense	43,561	-	43,561	-	-	43,561
Tithe	34,748	-	34,748	-	-	34,748
New market tax credit program	37,398	-	37,398	-	-	37,398
Newsletter and promotion	3,686	44,074	47,760	11,080	18,780	77,620
Office expense	16,525	54,086	70,611	31,376	8,584	110,571
Professional fees	538	-	538	13,750	-	14,288
Travel and seminars	9,766	-	9,766	3,269	3,791	16,826
Rent	27,407	195,304	222,711	11,682	5,841	240,234
Depreciation	18,326	8,861	27,187	-	-	27,187
Insurance	9,303	5,634	14,937	587	-	15,524
Repairs and maintenance	3,558	29,150	32,708	1,286	643	34,637
Telephone and utilities	10,067	38,602	48,669	3,474	1,737	53,880
	<u>\$ 837,248</u>	<u>\$ 721,360</u>	<u>\$ 1,558,608</u>	<u>\$ 202,201</u>	<u>\$ 125,392</u>	<u>\$ 1,886,201</u>

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Homeownership</u>	<u>ReStore</u>	<u>Total Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Costs of homes sold to homeowners	\$ 1,330,788	\$ -	\$ 1,330,788	\$ -	\$ -	\$ 1,330,788
Gifts of equity to homeowners	79,000	-	79,000	-	-	79,000
Interest discounts, first mortgages	131,825	-	131,825	-	-	131,825
Salaries	199,773	161,094	360,867	106,839	70,149	537,855
Payroll taxes	19,309	21,994	41,303	10,276	6,754	58,333
Fringe benefits	14,035	32,896	46,931	6,100	7,706	60,737
Interest expense	45,004	-	45,004	-	-	45,004
Tithe	35,575	-	35,575	-	-	35,575
New market tax credit program	43,664	-	43,664	-	-	43,664
Newsletter and promotion	13,086	8,986	22,072	11,389	17,571	51,032
Office expense	10,401	27,715	38,116	28,743	7,426	74,285
Professional fees	250	-	250	20,797	-	21,047
Travel and seminars	11,062	-	11,062	6,209	6,723	23,994
Rent	33,712	143,485	177,197	13,065	5,781	196,043
Depreciation	11,240	5,348	16,588	-	-	16,588
Insurance	6,486	5,166	11,652	461	-	12,113
Repairs and maintenance	4,517	12,831	17,348	1,646	724	19,718
Telephone and utilities	9,714	20,945	30,659	2,964	1,304	34,927
	<u>\$ 1,999,441</u>	<u>\$ 440,460</u>	<u>\$ 2,439,901</u>	<u>\$ 208,489</u>	<u>\$ 124,138</u>	<u>\$ 2,772,528</u>

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 190,753	\$ 697,390
Adjustments to reconcile change in net assets to net cash provided (used in) operating activities:		
Inventory	(62,345)	7,850
Depreciation	27,187	16,588
Transfer of debt to homeowners	(30,000)	(385,000)
Impairment on property	80,000	-
Mortgages issued	-	(206,791)
Mortgage discounts	-	131,825
Joint venture income	(99,706)	(99,706)
Joint venture amortization	12,102	12,103
Donated assets	(10,000)	(41,300)
Inventory write off	-	40,000
Unrealized/realized (gain)loss on investments	25,680	(57,222)
Amortization of mortgage discounts	(77,766)	(77,234)
Changes in assets and liabilities:		
Other receivables	87,170	(37,823)
Collection of mortgages receivable, net	103,136	81,666
Construction in progress	(181,336)	(12,967)
Prepaid expenses	(17,592)	14,237
Miscellaneous assets	(17,647)	-
Accounts payable and accrued expenses	26,346	(12,702)
Deferred revenue	-	(13,000)
Net cash provided by operating activities	55,982	57,914
Cash flows from investing activities		
Reinvestment of dividends and interest	(109,540)	(87,469)
Transfer to operating, net	21,058	236,279
Capital expenditures	(149,818)	(12,000)
Purchase of property	-	(100,000)
Distributions from joint venture	37,852	37,145
Notes and loans receivable, net	1,466	(15,684)
Transfer from escrow	-	124,582
Net cash (used) provided by investing activities	(198,982)	182,853
Cash flows from financing activities		
Proceeds (payments) - line of credit, net	185,000	(485,694)
Proceeds from long-term debt	62,500	65,235
Net cash provided (used) by financing activities	247,500	(420,459)
Net change in cash	104,500	(179,692)
Beginning cash	298,674	478,366
Ending cash	403,174	298,674
Less restricted cash	(19,941)	(45,204)
Ending cash - operating	\$ 383,233	\$ 253,470
<u>Supplementary disclosure of cash flow information:</u>		
Cash paid for interest:		
Interest paid - net of amount capitalized	\$ 43,561	\$ 45,004

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Habitat for Humanity of Bucks County, Inc. is a Pennsylvania non-profit organization, and has been granted an exemption from federal income tax under Section 501(c) (3) of the Internal Revenue Code as an affiliate of Habitat for Humanity International, Inc.

The mission of Habitat for Humanity of Bucks County, Inc. is - *build communities, empower families*. The Organization's activities focus primarily on three key areas: Homeownership, Basic Home Repairs, and the ReStores.

Homeownership

Provide economic and social stability to work-force families in need of affordable housing. Homes are built by volunteers and homeowners, and receive Energy Star ratings to help reduce costs for homeowners. This process also includes educational components such as budgeting and homeownership workshops and an advocate for each family.

Basic Home Repairs

A Brush With Kindness is a program to serve low-income homeowners who, due to, age, disability or family circumstances are unable to take care of basic repairs on their homes. This program offers security and healthy living conditions for homeowners, and brings stability and revitalization to neighborhoods. The expenditures for this program are included with Homeownership on the Statement of Functional Expenses.

ReStore

Thrift-style retail outlets (second location opened in April, 2016), the ReStores offer new and gently used household goods and building materials at deeply discounted prices while providing volunteer and recycling opportunities for the community at large. In addition, free *Do It Yourself (DIY)* clinics are offered, teaching people basic skills in areas of electrical, plumbing, and furniture repair.

Habitat for Humanity of Bucks County, Inc. is an affiliate of Habitat for Humanity International, Inc., (HfHI) a non-profit organization whose purpose is to create decent, affordable housing for those in need. While HfHI provides training, publications and on-line resources, Habitat for Humanity of Bucks County, Inc. is primarily and directly responsible for its own operations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no permanently restricted net assets.

Cash Non-operating

Cash - restricted included in other assets was established for the guarantee fees for the New Market Tax Credit Program. The disbursements are at the sole dominion and control of the lender for the New Market Tax Credit loan. The fees are expensed as they are disbursed.

Mortgages Receivable

The Organization has financed mortgages to homeowners, collateralized by first mortgages recorded as liens against the properties sold to the homeowner by the Organization. A valuation discount, of approximately 7%, has been recorded to reflect an interest rate recommended by Habitat for Humanity International, Inc. for valuation purposes.

A mortgage loss reserve has not been included in the financial statements. The Organization believes its risk is minimal due to the fact that in the event of foreclosure the Organization can take the property back. The Organization has developed and implemented a formal mortgage collection policy.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes and Loans Receivable

Upon sale of the properties to homeowners, the Organization advances the closing costs incurred on the sale of the property net of any deposit paid by the homeowner. The closing costs are repaid on a monthly basis over terms of 240, 300 or 360 months on a non-interest bearing basis. Some of the *A Brush with Kindness* homeowners are required to payback a portion of the home repair expense over a period of 5-10 years. All balances are considered fully collectible.

Construction in Progress

Management reviews its construction in progress assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the sum of the undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value, based upon an independent third party appraisal.

All costs related to each project are recorded as construction in progress. As the homes are sold the accumulated costs for the homes are removed from construction in progress.

Inventory

Inventory, at the ReStores, consists of donated building materials and household appliances and goods. Items are valued based on historical sales and the square footage of each ReStore location.

Property, Equipment and Depreciation

All acquisitions in excess of \$1,000 are capitalized. Property and equipment are reported at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the books and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred and costs of significant replacements and improvements are capitalized and expensed over the periods benefited.

Investments

Investments in marketable securities are reported at their fair value in the statements of financial position. Realized gains or losses and the unrealized gains (losses) on investments are included in the statements of activities.

The Organization's investments in marketable securities are subject to market risk. The investments are managed by an investment committee subject to its respective investment goals for the total investment return, yield, tolerance of investment risk, and investment turnover. The degree and concentration of risk varies by the type of investment.

Investment in the joint venture relates to the (NMTC) Program and is recorded using the equity method of accounting.

Intangible Assets

The intangible costs consist of loan costs in regard to the NMTC program. The loan costs are being amortized over fifteen years, the term of the debt incurred and the tax credit allowance period.

Property Held For Sale

Property held for sale includes the costs to purchase a building that was on the site of Jackson Village. The property is reviewed on an ongoing basis for impairment. This property is available for sale.

Real Estate and Insurance Escrow Accounts

At settlement, the Organization may open escrow accounts in the name of the Organization for Habitat homeowners for the payment of real estate taxes and insurance on behalf of the homeowners.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales Tax

The Organization collects sales tax. The amount received is credited to a liability account and as payments are made, this account is charged. At any point in time, this account represents the net amount owed to the tax authority for amounts collected but not yet remitted. These balances are reported in the accounts payable and accrued expense line item on the statements of financial position.

Restricted and Unrestricted Support

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Contributions

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value on the date of donation.

Donated Property, Services and Materials

The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization receives donated services from unpaid volunteers assisting the Organization with the construction and renovation of the homes. This volunteer time is not recognized in the accompanying statement of activities, because these services do not meet the criteria for recognition as contributed services.

Sale of Homes to Habitat Homeowners

Sale of homes to Habitat homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. The discount will be recognized as income on a straight-line basis over the term of the mortgages.

ReStore Activity

ReStore sales and changes in the contributed inventory balance are shown net on the Statement of Activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred.

Employee Benefit Plan

The Organization has a 401(k) plan for its employees. Eligible employees may contribute a percentage of their salary, up to federal limits. Effective January 1, 2015, the plan also provides the employer the option for an employer matching contribution. The Organization's contribution is discretionary from year to year. The Organization also pays the annual plan administration costs on the behalf of participants.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization qualifies under the Internal Revenue Code as a publicly supported charitable organization. The Organization is registered as required with the Pennsylvania Bureau of Charitable Organizations.

The Organization is required to recognize, measure, classify, and disclose in the financial statements uncertain tax positions taken or expected to be taken on the Organization's tax returns. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Generally, the Organization is no longer subject to income tax examinations by tax authorities for tax years prior to 2012.

Management's Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Significant estimates included in the financial statements are the valuation of the ReStore inventory, land and property donations, construction services included in construction in progress and cost of homes sold, property impairment, and the estimated joint venture income from the New Market Tax Credit Program (NMTC).

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was November 17, 2016.

NOTE B: CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash in bank deposit accounts which, at times, exceed federally insured limits. No loss has been experienced in such accounts and the Organization believes it is not exposed to any significant credit risk on cash.

The Organization maintains accounts with a brokerage firm. The accounts contain cash and securities. Security balances are insured up to \$500,000 by the Securities Investor Protection Corporation. Cash balances held in these accounts may at times exceed federal limits, but the Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Concentrations in support and revenue, and receivables are those who account for 10% or more of the activity or balances.

	2016	2015
Contributor		
Third party	-	17%
Receivable Balance		
Homeowner	11%	10%

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE C: MORTGAGES RECEIVABLE

The mortgages are payable by the homeowners in monthly installments ranging from \$150 to \$400 over a term of 240, 300 or 360 months. The mortgages are non-interest bearing. Unamortized discounts for mortgages financed to homeowners during the years ended June 30, 2016 and 2015 of \$- and \$131,825, respectively, has been included in the statement of functional expenses.

Pennsylvania Housing Finance Agency (PHFA) has purchased various mortgages receivable from the Organization. These proceeds are to be used to provide additional loans to low income families. The Organization will continue to service these mortgages, collecting monthly installments, which are remitted to PHFA on a quarterly basis along with a report of the status of each mortgage. The Organization must adhere to agreed upon obligations, and in the event of a default, all obligations purchased at PHFA's option shall cease and terminate, and PHFA may declare the mortgage indebtedness immediately due and payable by the Organization.

Below is a summary of the mortgages receivable as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Non-interest bearing mortgages receivable from homeowners	\$ 2,185,883	\$ 2,381,974
Mortgages receivable - PHFA	(118,721)	(211,676)
Valuation discount	<u>(1,061,724)</u>	<u>(1,139,490)</u>
Net mortgages receivable	1,005,438	1,030,808
Current maturities of mortgages receivable	<u>(109,613)</u>	<u>(112,613)</u>
	<u>\$ 895,825</u>	<u>\$ 918,195</u>

NOTE D: NOTES AND LOANS RECEIVABLE

The following is a summary of the notes and loans from homeowners:

	<u>2016</u>	<u>2015</u>
Current	\$ 10,604	\$ 11,786
Long-term	109,205	109,489
	<u>\$ 119,809</u>	<u>\$ 121,275</u>

NOTE E: CONSTRUCTION IN PROGRESS

The following properties were under construction or have incurred acquisition costs:

	<u>2016</u>	<u>2015</u>
State Road - Croydon	\$ -	\$ 27,481
Harrison - Morrisville	139,730	38,318
Prospect - Bristol	48,986	46,134
Jackson Village - Bensalem	493,534	520,183
B Avenue - Bristol	66,862	46,680
Woodland Avenue - Morrisville	<u>31,020</u>	<u>-</u>
	<u>\$ 780,132</u>	<u>\$ 678,796</u>

<u>Project Name</u>	<u>Location</u>	<u>Number of units</u>	<u>Status</u>
State Road	Croydon, PA	1	Sold
Harrison	Morrisville, PA	2	Construction in progress
Prospect	Bristol, PA	1	Pending development
Jackson Village	Bensalem, PA	12	Pending development
B Avenue	Bristol, PA	1	Pending development
Woodland Ave.	Morrisville, PA	1	Pending development

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE F: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful lives in years	2016	2015
Office equipment	3 - 5	\$ 24,346	\$ 20,657
Vehicles	5	151,785	103,411
Construction equipment	5	1,000	1,000
Furniture and fixtures	7	10,224	10,224
Leasehold Improvements	5 - 10	<u>147,892</u>	<u>42,516</u>
		335,247	177,808
Less: accumulated depreciation		<u>157,659</u>	<u>132,851</u>
		<u>\$ 177,588</u>	<u>\$ 44,957</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$27,187 and \$16,588, respectively.

NOTE G: MARKETABLE SECURITIES

Investments held by the Organization at June 30 consist of:

	2016	2015
Mutual funds	<u>\$ 1,136,832</u>	<u>\$ 1,083,172</u>
Exchange traded funds	<u>3,277,931</u>	<u>3,273,978</u>
	<u>\$ 4,414,763</u>	<u>\$ 4,357,150</u>

Investment income is summarized as follows:

	2016	2015
Unrealized gains (loss)	\$ (25,510)	\$ (46,039)
Realized gains (loss)	(170)	103,261
Dividends and interest	<u>109,997</u>	<u>90,078</u>
	<u>\$ 84,317</u>	<u>\$ 147,300</u>

NOTE H: FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are quoted prices unadjusted in active markets for identical assets that the Organization can access.
Level 2	Inputs other than quoted prices included in level 1 that are observable for the asset either directly or indirectly such as: <ul style="list-style-type: none"> ▪ Quoted prices for similar assets in active markets; ▪ Quoted prices for identical or similar assets in inactive markets; ▪ Inputs other than quoted prices that are observable for the asset; ▪ Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs that are unobservable inputs for the asset.

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NOTE H: FAIR VALUE MEASUREMENT (Continued)

Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets measured at fair value. There are no changes in the methodologies used at June 30, 2016 or 2015.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Exchange traded funds: Valued based on an underlying index, reported on the active market on which the individual securities are traded. The exchange traded funds held by the Organization are deemed to be actively traded.

Assets at Fair Value as of June 30, 2016				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds:				
Equity/growth funds	\$ 241,540	\$ -	\$ -	\$ 241,540
Debt/fixed income funds	895,292	-	-	895,292
Total mutual funds	1,136,832	-	-	1,136,832
Exchange traded funds:				
Equity/growth funds	1,437,485	-	-	1,437,485
Equity	1,840,446	-	-	1,840,446
Total exchange traded funds	3,277,931	-	-	3,277,931
Total assets at fair value	\$ 4,414,763	\$ -	\$ -	\$ 4,414,763

Assets at Fair Value as of June 30, 2015				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds:				
Equity/growth funds	\$ 224,234	\$ -	\$ -	\$ 224,234
Debt/fixed income funds	858,938	-	-	858,938
Total mutual funds	1,083,172	-	-	1,083,172
Exchange traded funds:				
Equity/growth funds	1,490,728	-	-	1,490,728
Equity	1,783,250	-	-	1,783,250
Total exchange traded funds	3,273,978	-	-	3,273,978
Total assets at fair value	\$ 4,357,150	\$ -	\$ -	\$ 4,357,150

NOTE I: JOINT VENTURE

The Organization is invested, along with five other Habitat affiliates, in a joint venture with a 21.0488 percent ownership in order to take advantage of New Market Tax Credit (NMTC) financing. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. The Organization invested \$3,687,369 in the joint venture and was able to obtain a loan in the amount of \$4,571,637, from a community development entity (an affiliate of the joint venture).

The proceeds received by the Organization were used for the purpose of constructing qualified housing properties for low income residents.

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NOTE I: JOINT VENTURE (Continued)

In connection with this arrangement, the Joint Venture has the option to buy back the Organization's ownership interest. The exercise of this option will effectively allow the Organization to extinguish its debt owed to the community development entity. The exercise of this option is anticipated to occur in the fiscal year ended June 30, 2017.

NOTE J: NEW MARKET TAX CREDIT PROGRAM

The following is a summary of the non-goodwill intangible incurred related to the New Market Tax Credit Program as of June 30, 2016 and 2015:

	2016	2015
Loan costs	\$ 181,543	\$ 181,543
Less accumulated amortization	80,685	68,583
	\$ 100,858	\$ 112,960

Amortization expense for the years ending June 30, 2016 and 2015 was \$12,102 and \$12,103, respectively. As of June 30, 2016 estimated amortization expense for the next five years and after is as follows:

2017	\$ 12,103
2018	12,103
2019	12,103
2020	12,103
2021	12,103
Thereafter	40,343
	\$ 100,858

In addition to the above amortization costs, guarantee fee expenses for the New Market Tax Credit Program were paid. For the years ending June 30, 2016 and 2015 the amortization and guarantee fees were \$37,398 and 43,664, respectively.

NOTE K: LINE OF CREDIT

The line is renewable annually and is secured by the Organization's deposits and marketable securities held by the investment company, which are used as collateral. The interest rate is variable and was 2.20% and 1.96% at June 30, 2016 and 2015, respectively. At June 30, 2016 the available unused credit was approximately \$1,928,500. The outstanding balances at June 30, 2016 and 2015 were \$599,427 and \$414,427, respectively.

NOTE L: LONG-TERM DEBT

	2016	2015
Long-term debt consists of the following:		
New Market Tax Credit note payable, collateralized by assets purchased with loan proceeds, .8126% interest rate; semi-annual payments of interest only until December 2016; principal and interest to be paid in semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over the following eight years, all outstanding principal due in November 2024. (See Note I)	\$ 4,571,637	\$ 4,571,637

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE L: LONG-TERM DEBT (Continued)

	2016	2015
Notes payable, no interest, no payments due unless sale, refinance or other transfer of title of property for Harrison Ave. located Morrisville, PA; principal is released and a lien is placed on each individual home as sold and transferred from Habitat to the buyer.	32,500	-
	4,604,137	4,571,637
Less: current portion	601,411	-
Long-term debt	\$ 4,002,726	\$ 4,571,637

Aggregate maturities on long-term debt at June 30, 2016 are as follows:

Years ending June 30	Amount
2017	\$ 601,411
2018	557,978
2019	562,529
2020	567,117
2021	571,743
Thereafter	1,743,359
	\$ 4,604,137

The Organization follows the policy of capitalizing construction interest as a component of the construction in progress. During the years ended June 30, 2016 and 2015, interest is as follows:

	2016	2015
Interest capitalized	\$ 5,231	\$ 5,139
Interest charged to operations	43,561	45,004
Total interest	\$ 48,792	\$ 50,143

NOTE M: RESTRICTED NET ASSETS

Temporarily restricted net assets are available for use in future periods for restricted purposes at June 30 were as follows:

	2016	2015
Purpose:		
Homeownership	\$ 48,000	\$ 122,024
Time		
Total	\$ 48,000	\$ 125,024

Temporarily restricted net assets released for the years ended June 30 were as follows:

Purpose restrictions	\$ 94,024	\$ 37,500
Time	3,000	-
	\$ 97,024	\$ 37,500

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NOTE N: FUND RAISING ACTIVITIES

The Organization has an annual Signature Event and other fundraising events. The support received and expenses incurred for these events were as follows:

	2016	2015
Gross receipts	\$ 135,108	\$ 130,871
Expenses	31,690	26,525
	\$ 103,418	\$ 104,346

NOTE O: RESTORE ACTIVITY

The ReStores had the following activity for the years ended June 30:

	2016			2015
	Chalfont	Langhorne	Total	Chalfont
ReStore sales	\$ 726,740	\$ 143,266	\$ 870,006	\$ 533,685
Contributions - change in inventory	6,947	55,398	62,345	(7,850)
Inventory write-offs	-	-	-	(40,000)
ReStore activity, from contributed inventory	\$ 733,687	\$ 198,664	\$ 932,351	\$ 485,835

NOTE P: TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2016 and 2015, the Organization voluntarily contributed \$34,748 and \$35,575, respectively, to Habitat for Humanity International. This amount is included in program services expense in the Statement of Activities.

The Organization participates in the Habitat for Humanity ReStore Association Program. The program provides support to the Organization's Restore including training, coaching and technical assistance. The agreement through December 2014 required 2% of ReStore sales be remitted to Habitat for Humanity International and the term was on a year to year basis. Beginning in January 2015, the Organization received new terms calling for an introductory \$150 per month membership fee. Additional costs are incurred based on program usage. Terms renew on an annual basis. For the years ended June 30, 2016 and 2015, the Organization incurred expenses related to this agreement of \$12,124 and \$6,455, respectively.

NOTE Q: ADDITIONAL INFORMATION

	2016	2015
Total donated property, goods and services	\$ 25,275	\$ 108,525
Donated construction program services	\$ 20,158	\$ 17,058
Advertising expense	\$ 44,092	\$ 23,560
Employer matching retirement contribution	\$ 10,520	\$ 4,000
401(K) administration costs	\$ 1,283	\$ 1,594

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NOTE R: LEASES

The Organization leases building space and office equipment under operating leases expiring in various years through 2021 . The Chalfont and Langhorne leases include a monthly charge for operating expenses of \$1.10 and \$1.00 per square foot, respectively. Total rent expense was \$244,782 and \$197,243 for the years ending June 30, 2016 and 2015, respectively.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2016 are as follows:

<u>Years ending June 30</u>	<u>Amount</u>
2017	\$ 351,764
2018	348,695
2019	156,544
2020	159,228
2021	<u>107,907</u>
	<u>\$ 1,124,138</u>

NOTE S: GIFTS OF EQUITY

The Organization has received funds from Bucks County's HOME and Housing Trust Funds to build affordable homes. In lieu of debt repayment by the Organization, the note is transferred to the home buyer at the time of sale as a second mortgage payable to the County. The second mortgage is payable to the County in full if the homeowner sells, refinances or transfers the property.

The following properties benefitted from these programs:

	<u>Funds Received/ Balances Transferred</u>
State Rd. – Croydon, PA	\$ 30,000
Harrison Ave. – Morrisville, PA	\$ 32,500

At June 30, 2016 \$1,132,500 is available from this program for the Harrison, B Avenue and Jackson Village projects.

The Organization may place a third mortgage on a property at the time of sale if the appraised value of the home exceeds the combined first and second mortgage values. The mortgage is forgiven over time for all properties sold prior to June 1, 2015. Homes sold after June 1, 2015 will have a permanent third mortgage placed on the property.

NOTE T: CHANGE IN ACCOUNTING ESTIMATE

During the current fiscal year, the Organization began valuing the ReStore inventory based on historical sales and the square footage of each store location. This is to prevent write downs of inventory scrapped during the year. This change in estimating the inventory value had a minimal value effect on the change in net assets for the year ended June 30, 2016.

NOTE U: SUBSEQUENT EVENTS

In July 2016, the Organization purchased a property in Quakertown, PA for \$124,000. This property will be developed and sold as part of the Organization's homeownership program.

In October of 2016, the Jackson Village variance requested by the Organization was denied by the authoritative township. At this time, no definitive alternative plans for this project have been determined.