

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

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**FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2017 AND 2016**

**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, 2017 and 2016, 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, 2017 and 2016 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  
October 17, 2017

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

|   | 2017                | 2016                 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| Current   |                     |                      |
| Cash - operating  | \$ 401,895          | \$ 383,233           |
| Mortgages receivable, current                             | 108,018             | 109,613              |
| Notes and loans receivable, current                       | 12,967              | 18,707               |
| Other receivables   | 51,921              | 15,330               |
| Construction in progress                                  | 833,472             | 780,132              |
| Inventory   | 122,000             | 116,298              |
| Prepaid expenses  | 44,809              | 43,649               |
| Total current assets                                      | 1,575,082           | 1,466,962            |
| Property and equipment, net                               | 294,723             | 177,588              |
| Other   |                     |                      |
| Mortgages receivable, net of current portion and discount | 878,366             | 895,825              |
| Notes and loans receivable, net of current portion        | 104,649             | 109,205              |
| Cash - money market                                       | 206,113             | 204,479              |
| Marketable securities                                     | 4,708,095           | 4,414,763            |
| Investment in joint venture                               | -                   | 4,102,714            |
| Intangibles, net  | -                   | 100,858              |
| Cash - restricted (NMTC)                                  | 5,205               | 19,941               |
| Property held for sale                                    | 747,986             | 100,000              |
| Miscellaneous   | 32,106              | 32,106               |
| Total other assets  | 6,682,520           | 9,979,891            |
| <b>Total assets</b>                                       | <b>\$ 8,552,325</b> | <b>\$ 11,624,441</b> |
| <b>LIABILITIES</b>  |                     |                      |
| Current   |                     |                      |
| Current portion of long-term debt                         | \$ 14,422           | \$ 601,411           |
| Line of credit  | 1,443,497           | 599,427              |
| Accounts payable and accrued expenses                     | 134,824             | 124,004              |
| Deferred rent   | 26,450              | -                    |
| Total current liabilities                                 | 1,619,193           | 1,324,842            |
| Long-term debt, net of current portion                    | -                   | 4,002,726            |
| Total liabilities   | 1,619,193           | 5,327,568            |
| <b>NET ASSETS</b>   |                     |                      |
| Unrestricted  | 6,888,132           | 6,248,873            |
| Temporarily restricted                                    | 45,000              | 48,000               |
| Total net assets  | 6,933,132           | 6,296,873            |
| <b>Total liabilities and net assets</b>                   | <b>\$ 8,552,325</b> | <b>\$ 11,624,441</b> |

See Accompanying Notes to Financial Statements

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|  | 2017                |                           |                     | 2016                |                           |                     |
|--|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
|  | Unrestricted        | Temporarily<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Total               |
| <b>SUPPORT AND REVENUE</b>                   |                     |                           |                     |                     |                           |                     |
| Contributions                                | \$ 500,351          | \$ 65,000                 | \$ 565,351          | \$ 535,319          | \$ 20,000                 | \$ 555,319          |
| In-kind contributions                        | 288,826             | -                         | 288,826             | 25,275              | -                         | 25,275              |
| Fundraising activities, net                  | 125,462             | -                         | 125,462             | 103,418             | -                         | 103,418             |
| Sale of homes to Habitat homeowners          | 545,000             | -                         | 545,000             | 150,000             | -                         | 150,000             |
| Proceeds of home held for resale             | 150,000             | -                         | 150,000             | -                   | -                         | -                   |
| Amortization of mortgage discounts           | 110,044             | -                         | 110,044             | 77,766              | -                         | 77,766              |
| Restore activity, from contributed inventory | 1,499,409           | -                         | 1,499,409           | 932,351             | -                         | 932,351             |
| Investment income                            | 557,998             | -                         | 557,998             | 84,317              | -                         | 84,317              |
| Other income                                 | 510,795             | -                         | 510,795             | 148,508             | -                         | 148,508             |
| Net assets, released from restriction        | 68,000              | (68,000)                  | -                   | 97,024              | (97,024)                  | -                   |
| <b>Total support and revenue</b>             | <b>4,355,885</b>    | <b>(3,000)</b>            | <b>4,352,885</b>    | <b>2,153,978</b>    | <b>(77,024)</b>           | <b>2,076,954</b>    |
| <b>EXPENSES</b>                              |                     |                           |                     |                     |                           |                     |
| Program services                             | 3,395,090           | -                         | 3,395,090           | 1,558,608           | -                         | 1,558,608           |
| Management and general                       | 205,659             | -                         | 205,659             | 202,201             | -                         | 202,201             |
| Fundraising expenses                         | 115,877             | -                         | 115,877             | 125,392             | -                         | 125,392             |
| <b>Total expenses</b>                        | <b>3,716,626</b>    | <b>-</b>                  | <b>3,716,626</b>    | <b>1,886,201</b>    | <b>-</b>                  | <b>1,886,201</b>    |
| <b>Change in net assets</b>                  | <b>639,259</b>      | <b>(3,000)</b>            | <b>636,259</b>      | <b>267,777</b>      | <b>(77,024)</b>           | <b>190,753</b>      |
| Net assets, beginning of year                | 6,248,873           | 48,000                    | 6,296,873           | 5,981,096           | 125,024                   | 6,106,120           |
| Net assets, end of year                      | <u>\$ 6,888,132</u> | <u>\$ 45,000</u>          | <u>\$ 6,933,132</u> | <u>\$ 6,248,873</u> | <u>\$ 48,000</u>          | <u>\$ 6,296,873</u> |

See Accompanying Notes to Financial Statements

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

|                                     | <u>Homeownership</u> | <u>ReStore</u>      | <u>Total<br/>Program</u> | <u>Management<br/>&amp; General</u> | <u>Fundraising</u> | <u>Total</u>        |
|-------------------------------------|----------------------|---------------------|--------------------------|-------------------------------------|--------------------|---------------------|
| Costs of homes sold to homeowners   | \$ 636,947           | \$ -                | \$ 636,947               | \$ -                                | \$ -               | \$ 636,947          |
| Cost of property held for sale      | 640,667              | -                   | 640,667                  | -                                   | -                  | 640,667             |
| Gifts of equity to homeowners       | 70,000               | -                   | 70,000                   | -                                   | -                  | 70,000              |
| Forgiveness of loan receivable      | 64,603               | -                   | 64,603                   | -                                   | -                  | 64,603              |
| Interest discounts, first mortgages | 68,646               | -                   | 68,646                   | -                                   | -                  | 68,646              |
| Salaries                            | 315,947              | 474,452             | 790,399                  | 117,993                             | 62,783             | 971,175             |
| Payroll taxes                       | 27,360               | 48,009              | 75,369                   | 9,856                               | 5,859              | 91,084              |
| Fringe benefits                     | 18,644               | 84,501              | 103,145                  | 2,383                               | 5,643              | 111,171             |
| Interest expense                    | 23,715               | -                   | 23,715                   | -                                   | -                  | 23,715              |
| Tithe                               | 36,273               | -                   | 36,273                   | -                                   | -                  | 36,273              |
| New market tax credit program       | 115,495              | -                   | 115,495                  | -                                   | -                  | 115,495             |
| Newsletter and promotion            | 13,572               | 42,568              | 56,140                   | 6,934                               | 20,481             | 83,555              |
| Office expense                      | 17,166               | 77,281              | 94,447                   | 33,083                              | 10,606             | 138,136             |
| Professional fees                   | -                    | -                   | -                        | 15,188                              | -                  | 15,188              |
| Travel and seminars                 | 21,671               | -                   | 21,671                   | 1,431                               | 2,541              | 25,643              |
| Rent                                | 28,672               | 385,460             | 414,132                  | 12,288                              | 5,461              | 431,881             |
| Depreciation                        | 11,555               | 31,708              | 43,263                   | -                                   | -                  | 43,263              |
| Insurance                           | 7,691                | 6,441               | 14,132                   | 870                                 | -                  | 15,002              |
| Repairs and maintenance             | 6,725                | 38,096              | 44,821                   | 1,652                               | 734                | 47,207              |
| Telephone and utilities             | 9,289                | 71,936              | 81,225                   | 3,981                               | 1,769              | 86,975              |
|                                     | <u>\$ 2,134,638</u>  | <u>\$ 1,260,452</u> | <u>\$ 3,395,090</u>      | <u>\$ 205,659</u>                   | <u>\$ 115,877</u>  | <u>\$ 3,716,626</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<br/>Program</u>   | <u>Management<br/>&amp; 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><b>\$ 837,248</b></u> | <u><b>\$ 721,360</b></u> | <u><b>\$ 1,558,608</b></u> | <u><b>\$ 202,201</b></u>            | <u><b>\$ 125,392</b></u> | <u><b>\$ 1,886,201</b></u> |

See Accompanying Notes to Financial Statements

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|  | 2017             | 2016             |
|--|------------------|------------------|
| Cash flows from operating activities   |                  |                  |
| Change in net assets   | \$ 636,259       | \$ 190,753       |
| Adjustments to reconcile change in net assets to net cash provided (used by) operating activities: |                  |                  |
| Inventory  | (5,702)          | (62,345)         |
| Depreciation   | 43,263           | 27,187           |
| Transfer of debt to homeowners   | (145,000)        | (30,000)         |
| Impairment on property   | -                | 80,000           |
| Costs of property held for sale  | 593,141          |                  |
| Debt forgiveness on mortgages  | 60,930           | -                |
| Debt forgiveness notes and loans   | 3,673            | -                |
| Mortgages issued   | (114,665)        | -                |
| Mortgage discounts   | 68,646           | -                |
| Gain on New Market Tax investment  | (450,520)        | -                |
| Gain on sale of capital assets   | (1,500)          | -                |
| Joint venture income   | (36,976)         | (99,706)         |
| Joint venture amortization   | 100,858          | 12,102           |
| Donated assets   | (288,826)        | (10,000)         |
| Unrealized/realized (gain)loss on investments  | (452,538)        | 25,680           |
| Amortization of mortgage discounts   | (110,044)        | (77,766)         |
| Changes in assets and liabilities:   |                  |                  |
| Other receivables  | (36,591)         | 87,170           |
| Collection of mortgages receivable, net  | 114,187          | 103,136          |
| Construction in progress   | (511,963)        | (181,336)        |
| Prepaid expenses   | (1,160)          | (17,592)         |
| Miscellaneous assets   | -                | (17,647)         |
| Accounts payable and accrued expenses  | 10,820           | 26,346           |
| Deferred rent  | 26,450           | -                |
| <b>Net cash (used) provided by operating activities</b>  | <b>(497,258)</b> | <b>55,982</b>    |
| Cash flows from investing activities   |                  |                  |
| Reinvestment of dividends and interest   | (105,022)        | (109,540)        |
| Transfer to operating, net   | 262,594          | 21,058           |
| Proceeds from sale of capital assets   | 1,500            | -                |
| Capital expenditures   | (160,398)        | (149,818)        |
| Purchase of property held for sale   | (493,678)        | -                |
| Distributions from joint venture   | 18,573           | 37,852           |
| Notes and loans issued   | (5,349)          |                  |
| Collection of notes and loans receivable, net  | 11,972           | 1,466            |
| <b>Net cash used by investing activities</b>   | <b>(469,808)</b> | <b>(198,982)</b> |
| Cash flows from financing activities   |                  |                  |
| Proceeds (payments) - line of credit, net  | 844,070          | 185,000          |
| Proceeds from long-term debt   | 126,922          | 62,500           |
| <b>Net cash provided by financing activities</b>   | <b>970,992</b>   | <b>247,500</b>   |
| <b>Net change in cash</b>  | <b>3,926</b>     | <b>104,500</b>   |
| Beginning cash   | 403,174          | 298,674          |
| Ending cash  | 407,100          | 403,174          |
| Less restricted cash   | (5,205)          | (19,941)         |
| Ending cash - operating  | \$ 401,895       | \$ 383,233       |
| <u>Supplementary disclosure of cash flow information:</u>  |                  |                  |
| Cash paid for interest   |                  |                  |
| Interest paid - net of amount capitalized  | \$ 23,715        | \$ 43,561        |
| Non-cash investing and financing activities  |                  |                  |
| Debt forgiveness   | \$ 4,571,637     | \$ -             |
| Investment recall  | \$ 4,121,117     | \$ -             |

See Accompanying Notes to Financial Statements



**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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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 meet or exceed the current Energy Star standards 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.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

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.

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 was recorded using the equity method of accounting. During the current year ended, this program ended and the investment was recalled. As a result the corresponding assets and liability were removed and the gain on investment recall was included in the statement of activities. (See Notes I, J, & L)

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

Intangible Assets

The intangible costs consisted of loan costs in regard to the NMTC program. The loan costs were being amortized over fifteen years, the term of the debt incurred and the tax credit allowance period. During the current year this program ended and the remaining amortization was included in the statement of activities (see Note J)

Property Held For Sale

Properties held for sale include the costs to purchase maintain and improve the properties until they are sold. These properties are reviewed on an ongoing basis for impairment. These properties are 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.

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.

Deferred Rent

Rent expense is being recognized on the straight-line basis over the life for the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the statement 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.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

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. The plan also provides 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 plan participants.

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 2013.

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 the cost of homes sold; the year ended June 30, 2016 included estimates for property impairment and the joint venture income from the New Market Tax Credit Program (NMTC).

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was October 17, 2017.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE B: CONCENTRATIONS**

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 individual amounts which account for 10% or more of the activity or balances.

|  | 2017 | 2016 |
|--|------|------|
| <u>Receivable Balance Concentrations</u> |      |      |
| Homeowner                                | 11%  | 11%  |
| Homeowner                                | 10%  | -    |

**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, 2017 and 2016 of \$68,646 and \$-, respectively, have 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, 2017 and 2016:

|   | 2017         | 2016         |
|---|--------------|--------------|
| Non-interest bearing mortgages receivable from homeowners | \$ 2,113,825 | \$ 2,185,883 |
| Mortgages receivable - PHFA                               | (107,115)    | (118,721)    |
| Valuation discount  | (1,020,326)  | (1,061,724)  |
| Net mortgages receivable                                  | 986,384      | 1,005,438    |
| Current maturities of mortgages receivable                | (108,018)    | (109,613)    |
|   | \$ 878,366   | \$ 895,825   |

**NOTE D: NOTES AND LOANS RECEIVABLE**

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

|           | 2017       | 2016       |
|-----------|------------|------------|
| Current   | \$ 12,967  | \$ 18,707  |
| Long-term | 104,649    | 109,205    |
|           | \$ 117,616 | \$ 127,912 |

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE E: CONSTRUCTION IN PROGRESS**

The following properties were under construction or have incurred acquisition costs as of June 30, 2017 and 2016:

|                               | 2017       | 2016       |
|-------------------------------|------------|------------|
| Harrison - Morrisville        | \$ -       | \$ 139,730 |
| Prospect - Bristol            | 77,557     | 48,986     |
| Jackson Village - Bensalem    | -          | 493,534    |
| B Avenue – Bristol            | -          | 66,862     |
| Woodland Avenue – Morrisville | 163,533    | 31,020     |
| Yardley – Quakertown          | 125,032    | -          |
| Pumpkin Hill – Levittown      | 109,353    | -          |
| Mill – Levittown              | 110,655    | -          |
| Harper – Morrisville          | 111,205    | -          |
| Sycamore - Croydon            | 33,648     | -          |
| Willow - Bristol              | 96,950     | -          |
| Other                         | 5,539      | -          |
|                               | \$ 833,472 | \$ 780,132 |

| <u>Project Name</u> | <u>Location</u> | <u>Number of units</u> | <u>Status</u>           |
|---------------------|-----------------|------------------------|-------------------------|
| Harrison            | Morrisville     | 2                      | Sold                    |
| Prospect            | Bristol         | 1                      | Construction in process |
| Jackson Village     | Bensalem        | -                      | Sold as is              |
| B Avenue            | Bristol         | 1                      | Sold                    |
| Woodland Ave.       | Morrisville     | 1                      | Construction in process |
| Yardley             | Quakertown      | 1                      | Pending development     |
| Pumpkin Hill        | Levittown       | 1                      | Pending development     |
| Mill                | Levittown       | 1                      | Pending development     |
| Harper              | Morrisville     | 1                      | Pending development     |
| Sycamore            | Croydon         | 1                      | Pending development     |
| Other               | Morrisville     | 4                      | Purchase Pending        |
| Willow              | Bristol         | 1                      | Pending development     |

**NOTE F: PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

|                                | Estimated useful lives<br>in years | 2017       | 2016       |
|--------------------------------|------------------------------------|------------|------------|
| Office equipment               | 3 - 5                              | \$ 31,356  | \$ 24,346  |
| Vehicles                       | 5                                  | 254,899    | 151,785    |
| Construction equipment         | 5                                  | 4,989      | 1,000      |
| Furniture and fixtures         | 7                                  | 10,224     | 10,224     |
| Leasehold Improvements         | 5 - 10                             | 152,644    | 147,892    |
|                                |                                    | 454,112    | 335,247    |
| Less: accumulated depreciation |                                    | 159,389    | 157,659    |
|                                |                                    | \$ 294,723 | \$ 177,588 |

Depreciation expense for the years ended June 30, 2017 and 2016 was \$43,263 and \$27,187, respectively.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE G: MARKETABLE SECURITIES

Investments held by the Organization at June 30 consist of:

|                       | <u>2017</u>         | <u>2016</u>         |
|-----------------------|---------------------|---------------------|
| Mutual funds          | \$ 1,173,475        | \$ 1,136,832        |
| Exchange traded funds | 3,534,620           | 3,277,931           |
|                       | <u>\$ 4,708,095</u> | <u>\$ 4,414,763</u> |

Investment income is summarized as follows:

|                         | <u>2017</u>       | <u>2016</u>      |
|-------------------------|-------------------|------------------|
| Unrealized gains (loss) | \$ 332,602        | \$ (25,510)      |
| Realized gains (loss)   | 119,936           | (170)            |
| Dividends and interest  | 105,460           | 109,997          |
|                         | <u>\$ 557,998</u> | <u>\$ 84,317</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). The three levels of the fair value hierarchy are described as follows:

|         |  |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.   |
| Level 2 | <p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> <li>▪ Quoted prices for similar assets in active markets;</li> <li>▪ Quoted prices for identical or similar assets in inactive markets;</li> <li>▪ Inputs other than quoted prices that are observable for the asset;</li> <li>▪ Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> <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.</p> |
| Level 3 | Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.   |

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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, 2017 or 2016.

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.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
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NOTE H: FAIR VALUE MEASUREMENT(Continued)

|                             | Assets at Fair Value as of June 30, 2017 |                |                |              |
|-----------------------------|--|----------------|----------------|--------------|
|                             | <i>Level 1</i>                           | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
| Mutual funds:               |  |                |                |              |
| Equity/growth funds         | \$ 254,273                               | \$ -           | \$ -           | \$ 254,273   |
| Debt/fixed income funds     | 919,202                                  | -              | -              | 919,202      |
| Total mutual funds          | 1,173,475                                | -              | -              | 1,173,475    |
| Exchange traded funds:      |  |                |                |              |
| Equity/growth funds         | 1,570,619                                | -              | -              | 1,570,619    |
| Equity                      | 1,964,001                                | -              | -              | 1,964,001    |
| Total exchange traded funds | 3,534,620                                | -              | -              | 3,534,620    |
| Total assets at fair value  | \$ 4,708,095                             | \$ -           | \$ -           | \$ 4,708,095 |

|                             | 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 |

NOTE I: JOINT VENTURE

The Organization was 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 originally 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.

In connection with this arrangement, the Joint Venture had the option to buy back the Organization's ownership interest. The exercise of this option allowed the Organization to extinguish its debt owed to the community development entity. In December 2016, the option was exercised resulting in the buyback of the investment and forgiveness of the associated loan.

NOTE J: NEW MARKET TAX CREDIT PROGRAM

In December 2016 (Note I), this program was completed.

The following is a summary of the non-goodwill intangible incurred related to the New Market Tax Credit Program as of June 30, 2017 and 2016:

|                               | 2017       | 2016       |
|-------------------------------|------------|------------|
| Loan costs                    | \$ 181,543 | \$ 181,543 |
| Less accumulated amortization | 181,543    | 80,685     |
|                               | \$ -       | \$ 100,858 |



**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
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NOTE J: NEW MARKET TAX CREDIT PROGRAM(Continued)

Amortization expense for the years ending June 30, 2017 and 2016 was \$100,858 and \$12,102, respectively.

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, 2017 and 2016 the amortization and guarantee fees were \$115,495 and \$ 37,398, 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 2.97% and 2.20% at June 30, 2017 and 2016, respectively. At June 30, 2017 the available unused credit was approximately \$1,358,000. The outstanding balances at June 30, 2017 and 2016 were \$1,443,497 and \$599,427, respectively.

NOTE L: LONG-TERM DEBT

|  | <u>2017</u>   | <u>2016</u>         |
|--|---------------|---------------------|
| 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; This loan was forgiven in December 2016. (See Note I)  | \$ -          | \$ 4,571,637        |
| Notes payable, no interest, no payments due unless sale, refinance or other transfer of title of the property on Woodland Ave. located in Morrisville, PA; principal is released and a lien is placed on each individual home as sold and transferred from Habitat to the buyer. | <u>14,422</u> | <u>32,500</u>       |
|  | 14,422        | 4,604,137           |
| Less: current portion  | <u>14,422</u> | <u>601,411</u>      |
| Long-term debt   | <u>\$ -</u>   | <u>\$ 4,002,726</u> |

Future maturities on the long-term debt at June 30, 2017 are as follows:

| <u>Years ending June 30</u> | <u>Amount</u>    |
|-----------------------------|------------------|
| 2017                        | <u>\$ 14,422</u> |

The Organization follows the policy of capitalizing construction interest as a component of the construction in progress. During the years ended June 30, 2017 and 2016, interest expense is as follows:

|                                | <u>2017</u>      | <u>2016</u>      |
|--------------------------------|------------------|------------------|
| Interest capitalized           | \$ 15,596        | \$ 5,231         |
| Interest charged to operations | <u>23,715</u>    | <u>43,561</u>    |
| Total interest                 | <u>\$ 39,311</u> | <u>\$ 48,792</u> |

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
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**NOTE M: RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for use in future periods for restricted purposes at June 30, 2017 and 2016 were as follows:

|         | 2017      | 2016      |
|---------|-----------|-----------|
| Purpose | \$ 35,000 | \$ 48,000 |
| Time    | 10,000    | -         |
| Total   | \$ 45,000 | \$ 48,000 |

Temporarily restricted net assets released for the years ended June 30, 2017 and 2016 were as follows:

|                      |           |           |
|----------------------|-----------|-----------|
| Purpose restrictions | \$ 48,000 | \$ 94,024 |
| Time                 | 20,000    | 3,000     |
| Total                | \$ 68,000 | \$ 97,024 |

**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:

|                | 2017       | 2016       |
|----------------|------------|------------|
| Gross receipts | \$ 156,804 | \$ 135,108 |
| Expenses       | 31,342     | 31,690     |
|                | \$ 125,462 | \$ 103,418 |

**NOTE O: RESTORE ACTIVITY**

The ReStores had the following activity for the years ended June 30, 2017 and 2016:

|  | 2017       |            |              |
|--|------------|------------|--------------|
|  | Chalfont   | Langhorne  | Total        |
| ReStore sales                                | \$ 754,191 | \$ 739,516 | \$ 1,493,707 |
| Contributions – change in inventory          | 1,100      | 4,602      | 5,702        |
| ReStore activity, from contributed inventory | \$ 755,291 | \$ 744,118 | \$ 1,499,409 |
|  | 2016       |            |              |
|  | Chalfont   | Langhorne  | Total        |
| ReStore sales                                | \$ 726,740 | \$ 143,266 | \$ 870,006   |
| Contributions – change in inventory          | 6,947      | 55,398     | 62,345       |
| ReStore activity, from contributed inventory | \$ 733,687 | \$ 198,664 | \$ 932,351   |

**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, 2017 and 2016, the Organization voluntarily contributed \$36,273 and \$34,748, respectively, to Habitat for Humanity International. This amount is included in program services expense in the Statement of Activities.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
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**JUNE 30, 2017 AND 2016**

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NOTE P: TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL(Continued)

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 calls for monthly associates fees and the terms renew on an annual basis. Additional costs are incurred based on program usage. For the years ended June 30, 2017 and 2016, the Organization incurred expenses related to this agreement of \$18,966 and \$12,124, respectively.

NOTE Q: ADDITIONAL INFORMATION

|  | 2017       | 2016      |
|--|------------|-----------|
| Total donated property, goods and services | \$ 288,826 | \$ 25,275 |
| Advertising expense                        | \$ 42,381  | \$ 44,092 |
| Employer matching retirement contribution  | \$ 10,453  | \$ 10,520 |
| 401(K) administration costs                | \$ 1,367   | \$ 1,283  |

NOTE R: LEASES

The Organization leases building space and office equipment under operating leases expiring in various years through 2021. (Note T) 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 \$436,177 and \$244,782 for the years ending June 30, 2017 and 2016, respectively.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2017 are as follows:

| Years ending June 30 | Amount     |
|----------------------|------------|
| 2018                 | \$ 405,496 |
| 2019                 | 213,808    |
| 2020                 | 217,881    |
| 2021                 | 148,558    |
| 2022                 | 1,864      |
|                      | \$ 987,607 |

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:

|                                   | Funds Received/<br>Balances Transferred |
|-----------------------------------|---|
| B Avenue – Bristol, PA            | \$ 85,000                               |
| Harrison Ave. – Morrisville, PA   | \$ 60,000                               |
| Woodland Avenue – Morrisville, PA | \$ 14,422                               |

At June 30, 2017 \$220,578 is available from this program for the Woodland Ave., Yardley, and Harper and Prospect 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.

**HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.**  
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NOTE T: SUBSEQUENT EVENTS

In July 2017, the Organization signed a lease addendum to an existing Restore lease. This addendum increased the amount of leased space through 2021 which was the original lease expiration date. The total additional commitment through 2021 on this leased space is \$202,185, and the annual amounts are included in Note R of the financial statements.

In July 2017, the Organization received funding contracts from Buck County's HOME and Housing Trust Funds in the amount of \$200,000 for the Pumpkin Hill, Mill, and Willow projects.

Subsequent to June 30, 2017 the decision was made that the Sycamore lot will be held for sale instead of developed due to higher than expected infrastructure expenses.