

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

HABITAT FOR HUMANITY OF
BUCKS COUNTY, INC.

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17



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, 2018 and 2017, 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, 2018 and 2017 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

Harleysville, PA
October 16, 2018

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current		
Cash - operating	\$ 480,914	\$ 401,895
Mortgages receivable, current	107,213	108,018
Notes and loans receivable, current	16,228	12,967
Other receivables	32,751	51,921
Construction in progress	734,804	833,472
Inventory	151,000	122,000
Prepaid expenses	40,070	44,809
Total current assets	1,562,980	1,575,082
Property and equipment, net	295,915	294,723
Other		
Mortgages receivable, net of current portion and discount	872,289	878,366
Notes and loans receivable, net of current portion	110,806	104,649
Cash - money market	130,909	206,113
Marketable securities	4,831,439	4,708,095
Cash - restricted (NMTC)	-	5,205
Property held for sale	747,500	747,986
Miscellaneous	32,106	32,106
Total other assets	6,725,049	6,682,520
Total assets	\$ 8,583,944	\$ 8,552,325
LIABILITIES		
Current		
Current portion of long-term debt	\$ -	\$ 14,422
Line of credit	1,230,227	1,443,497
Accounts payable and accrued expenses	143,251	134,824
Deferred rent	16,521	26,450
Total liabilities	1,389,999	1,619,193
NET ASSETS		
Unrestricted	7,188,945	6,888,132
Temporarily restricted	5,000	45,000
Total net assets	7,193,945	6,933,132
Total liabilities and net assets	\$ 8,583,944	\$ 8,552,325

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 585,883	\$ -	\$ 585,883	\$ 500,351	\$ 65,000	\$ 565,351
In-kind contributions	99,243	-	99,243	288,826	-	288,826
Fundraising activities, net	145,786	-	145,786	125,462	-	125,462
Sale of homes to Habitat homeowners	1,243,000	-	1,243,000	545,000	-	545,000
Proceeds of home held for resale	-	-	-	150,000	-	150,000
Amortization of mortgage discounts	100,418	-	100,418	110,044	-	110,044
Restore activity, from contributed inventory	1,984,759	-	1,984,759	1,499,409	-	1,499,409
Investment income	378,517	-	378,517	557,998	-	557,998
Other income	30,481	-	30,481	510,795	-	510,795
Net assets, released from restriction	40,000	(40,000)	-	68,000	(68,000)	-
Total support and revenue	4,608,087	(40,000)	4,568,087	4,355,885	(3,000)	4,352,885
EXPENSES						
Program services	3,949,228	-	3,949,228	3,395,090	-	3,395,090
Management and general	207,345	-	207,345	205,659	-	205,659
Fundraising expenses	150,701	-	150,701	115,877	-	115,877
Total expenses	4,307,274	-	4,307,274	3,716,626	-	3,716,626
Change in net assets	300,813	(40,000)	260,813	639,259	(3,000)	636,259
Net assets, beginning of year	6,888,132	45,000	6,933,132	6,248,873	48,000	6,296,873
Net assets, end of year	<u>\$ 7,188,945</u>	<u>\$ 5,000</u>	<u>\$ 7,193,945</u>	<u>\$ 6,888,132</u>	<u>\$ 45,000</u>	<u>\$ 6,933,132</u>

See Accompanying Notes to Financial Statements

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	<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	\$ 1,404,305	\$ -	\$ 1,404,305	\$ -	\$ -	\$ 1,404,305
Gifts of equity to homeowners	187,250	-	187,250	-	-	187,250
Impairment	170,469	-	170,469	-	-	170,469
Interest discounts, first mortgages	84,156	-	84,156	-	-	84,156
Salaries	300,130	594,819	894,949	121,659	92,689	1,109,297
Payroll taxes	33,291	58,535	91,826	10,948	8,485	111,259
Fringe benefits	53,092	113,568	166,660	3,591	9,390	179,641
Interest expense	3,576	-	3,576	-	-	3,576
Tithe	40,058	-	40,058	-	-	40,058
Newsletter and promotion	42,167	50,624	92,791	-	15,361	108,152
Office expense	15,708	75,947	91,655	38,275	8,815	138,745
Professional fees	-	-	-	18,660	-	18,660
Travel and seminars	23,081	30,830	53,911	-	955	54,866
Rent	35,202	407,996	443,198	11,756	11,713	466,667
Depreciation	19,753	53,902	73,655	-	837	74,492
Insurance	11,567	13,235	24,802	-	-	24,802
Repairs and maintenance	8,049	25,095	33,144	-	-	33,144
Telephone and utilities	7,369	85,454	92,823	2,456	2,456	97,735
	<u>\$ 2,439,223</u>	<u>\$ 1,510,005</u>	<u>\$ 3,949,228</u>	<u>\$ 207,345</u>	<u>\$ 150,701</u>	<u>\$ 4,307,274</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 Program</u>	<u>Management & 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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 260,813	\$ 636,259
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Inventory	(29,000)	(5,702)
Depreciation	74,492	43,263
Transfer of debt to homeowners	(375,000)	(145,000)
Impairment on property	170,469	-
Costs of property held for sale	-	593,141
Debt forgiveness on mortgages	-	60,930
Debt forgiveness notes and loans	-	3,673
Mortgages issued	(153,924)	(114,665)
Mortgage discounts	84,156	68,646
Gain on New Market Tax investment	-	(450,520)
Gain on sale of capital assets	-	(1,500)
Joint venture income	-	(36,976)
Joint venture amortization	-	100,858
Donated assets	(99,243)	(288,826)
Unrealized/realized gain on investments	(303,150)	(452,538)
Amortization of mortgage discounts	(100,418)	(110,044)
Changes in assets and liabilities:		
Other receivables	19,170	(36,591)
Collection of mortgages receivable, net	177,068	114,187
Construction in progress	166,645	(511,963)
Prepaid expenses	4,739	(1,160)
Accounts payable and accrued expenses	8,427	10,820
Deferred rent	(9,929)	26,450
Net cash used by operating activities	(104,685)	(497,258)
Cash flows from investing activities		
Reinvestment of dividends and earnings	(116,005)	(105,022)
Transfer to operating, net	371,015	262,594
Proceeds from sale of capital assets	-	1,500
Capital expenditures	(75,684)	(160,398)
Construction on property held for sale	(138,717)	(493,678)
Distributions from joint venture	-	18,573
Notes and loans issued	(14,924)	(5,349)
Collection of notes and loans receivable, net	5,506	11,972
Net cash provided (used) by investing activities	31,191	(469,808)
Cash flows from financing activities		
Proceeds (payments) - line of credit, net	(213,270)	844,070
Proceeds from long-term debt	360,578	126,922
Net cash provided by financing activities	147,308	970,992
Net change in cash	73,814	3,926
Beginning cash	407,100	403,174
Ending cash	480,914	407,100
Less restricted cash	-	(5,205)
Ending cash - operating	\$ 480,914	\$ 401,895
<u>Supplementary disclosure of cash flow information:</u>		
Cash paid for interest		
Interest paid - net of amount capitalized	\$ 3,576	\$ 237,415
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, 2018 AND 2017

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

Home Repair 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, 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. This account has been closed.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 8%, 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 *Home Repair* 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 year ended June 30, 2017, 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 Note I)

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Property Held For Sale

Properties held and available 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.

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, 2018 AND 2017

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 2014.

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, property impairment, donated construction services included in construction in progress and the cost of homes sold.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was October 16, 2018.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 represent individual amounts which account for 10% or more of the activity or balances. Following are concentrations for 2018 and 2017.

	2018	2017
<u>Receivable Balance</u>		
Homeowner - A	10%	11%
Homeowner - B	13%	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, 2018 and 2017 of \$84,156 and \$68,646, 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;

	2018	2017
Non-interest bearing mortgages receivable from homeowners	\$ 2,080,827	\$ 2,113,825
Mortgages receivable - PHFA	(97,261)	(107,115)
Valuation discount	<u>(1,004,064)</u>	<u>(1,020,326)</u>
Net mortgages receivable	979,502	986,384
Current maturities of mortgages receivable	<u>(107,213)</u>	<u>(108,018)</u>
	<u>\$ 872,289</u>	<u>\$ 878,366</u>

NOTE D: NOTES AND LOANS RECEIVABLE

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

	2018	2017
Current	\$ 16,228	\$ 12,967
Long-term	110,806	104,649
	<u>\$ 127,034</u>	<u>\$ 117,616</u>

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE E: CONSTRUCTION IN PROGRESS

The following properties were under construction or have incurred acquisition costs as of June 30, 2018 and 2017:

Project Name	Location	Number of units	2018 Status	2018	2017
Prospect	Bristol	1	Sold	\$ -	\$ 77,557
Woodland Ave	Morrisville	1	Sold	-	163,533
Yardley	Quakertown	1	Sold	-	125,032
Pumpkin Hill	Levittown	1	Sold	-	109,353
Mill	Levittown	1	Sold	-	110,655
Harper	Morrisville	1	Sold	-	111,205
Sycamore	Croydon	1	In Process	5,000	33,648
Woodland	Morrisville	4	In Process	212,612	96,950
Willow	Bristol	1	In Process	107,241	5,539
Holly	Levittown	1	In Process	115,748	-
Winding Way	Morrisville	1	In Process	131,201	-
Hillcrest	Morrisville	1	In Process	163,002	-
				<u>\$ 734,804</u>	<u>\$ 833,472</u>

NOTE F: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful lives in years	2018	2017
Office equipment	3 - 5	\$ 39,304	\$ 31,356
Vehicles	5	254,899	254,899
Construction equipment	5	7,184	4,989
Furniture and fixtures	7	42,491	10,224
Leasehold Improvements	5 - 10	174,254	152,644
		518,132	454,112
Less: accumulated depreciation		222,217	159,389
		<u>\$ 295,915</u>	<u>\$ 294,723</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$74,492 and \$43,263, respectively.

NOTE G: 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. 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.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE H: MARKETABLE SECURITIES

Investments held by the Organization at June 30 consist of:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 1,245,201	\$ 1,173,475
Exchange traded funds	<u>3,586,238</u>	<u>3,534,620</u>
	<u>\$ 4,831,439</u>	<u>\$ 4,708,095</u>

Investment income is summarized as follows:

	<u>2018</u>	<u>2017</u>
Unrealized gains (loss)	\$ 74,036	\$ 332,602
Realized gains (loss)	229,114	119,936
Dividends and interest (net of fees)	<u>75,367</u>	<u>105,460</u>
	<u>\$ 378,517</u>	<u>\$ 557,998</u>

Investment fees for the year ended June 30, 2018 and 2017 were \$29,459 and \$28,093, respectively.

NOTE I: 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"> ▪ 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.</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, 2018 or 2017.

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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE I: FAIR VALUE MEASUREMENT(Continued)

Assets at Fair Value as of June 30, 2018				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds:				
Equity/growth funds	\$ 254,987	\$ -	\$ -	\$ 254,987
Debt/fixed income funds	990,214	-	-	990,214
Total mutual funds	1,245,201	-	-	1,245,201
Exchange traded funds:				
Equity/growth funds	1,668,868	-	-	1,668,868
Equity	1,917,370	-	-	1,917,370
Total exchange traded funds	3,586,238	-	-	3,586,238
Total assets at fair value	\$ 4,831,439	\$ -	\$ -	\$ 4,831,439

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

NOTE J: 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 3.85% and 2.97% at June 30, 2018 and 2017, respectively. At June 30, 2018 the available unused credit was approximately \$1,649,000. The outstanding balances at June 30, 2018 and 2017 were \$1,230,227 and \$1,443,497, respectively.

NOTE K: LONG-TERM DEBT

	2018	2017
Long-term debt:		
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, paid in full.	-	14,422
	-	14,422
Less: current portion	-	14,422
Long-term debt	\$ -	\$ -

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE K: LONG-TERM DEBT (Continued)

The Organization follows the policy of capitalizing construction interest as a component of the construction in progress. During the years ended June 30, 2018 and 2017, interest expense is as follows:

	2018	2017
Interest capitalized	\$ 45,712	\$ 15,596
Interest charged to operations	3,576	23,715
Total interest	\$ 49,288	\$ 39,311

NOTE L: RESTRICTED NET ASSETS

Temporarily restricted net assets are available for use in future periods for restricted purposes at June 30, 2018 and 2017 were as follows:

	2018	2017
Purpose	\$ 0	\$ 35,000
Time	5,000	10,000
Total	\$ 5,000	\$ 45,000

Temporarily restricted net assets released for the years ended June 30, 2018 and 2017 were as follows:

Purpose restrictions	\$ 20,000	\$ 48,000
Time	20,000	20,000
Total	\$ 40,000	\$ 68,000

NOTE M: 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:

	2018	2017
Gross receipts	\$ 185,629	\$ 156,804
Expenses	39,843	31,342
	\$ 145,786	\$ 125,462

NOTE N: RESTORE ACTIVITY

The ReStores had the following activity for the years ended June 30, 2018 and 2017:

	2018		
	Chalfont	Langhorne	Total
ReStore sales	\$ 914,919	\$ 1,044,515	\$ 1,959,434
Contributions – change in inventory	5,148	20,177	25,325
ReStore activity, from contributed inventory	\$ 920,067	\$ 1,064,692	\$ 1,984,759
	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

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE O: 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, 2018 and 2017, the Organization voluntarily contributed \$40,058 and \$36,273, 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 calls for monthly associates fees and the terms renew on an annual basis. Additional costs are incurred based on program usage (i.e. shipping fees). For the years ended June 30, 2018 and 2017, the Organization incurred expenses related to this agreement of \$20,255 and \$18,966, respectively.

NOTE P: ADDITIONAL INFORMATION

	2018	2017
Total donated property, goods and services	\$ 99,243	\$ 288,826
Advertising expense	\$ 73,877	\$ 55,613
Employer matching retirement contribution	\$ 12,953	\$ 10,453
401(K) administration costs	\$ 1,348	\$ 1,367
Amortization NMTC loan costs	\$ -	\$ 100,858

NOTE Q: LEASES

The Organization leases building space and office equipment under operating leases expiring in various years through 2022. The Chalfont and Langhorne office leases include a monthly charge for operating expenses of \$1.10 and \$1.00 per square foot, respectively. Total lease expense was \$471,282 and \$436,177 for the years ending June 30, 2018 and 2017, respectively.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2018 are as follows:

Years ending June 30	Amount
2019	\$ 423,097
2020	427,169
2021	357,847
2022	1,864
	\$ 1,209,977

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE R: 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/ Balances Transferred
Yardley Court – Quakertown, PA	\$ 25,000
Mill Drive – Levittown, PA	\$ 65,000
Harper Ave. – Morrisville, PA	\$ 60,000
Woodland Avenue – Morrisville, PA	\$ 65,000
Prospect Avenue – Croydon, PA	\$ 85,000
Pumpkin Hill Road – Levittown, PA	\$ 75,000

At June 30, 2018 \$252,330 is available from this program for the Hillcrest, Holly Drive, Winding Way, & Willow 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 S: SUBSEQUENT EVENTS

On August 7, 2018, the Organization sold the property on Comfort Road, New Hope, PA for \$747,500.

On September 28, 2018, the Organization purchased a property on Cedar Avenue, Croydon, PA for \$95,000. In regards to this purchase the Organization has filed an application to allocate a \$45,000 county loan, originally for the purchase of Sycamore Road property, to the Cedar Avenue property. As of this statement, the outcome of the application has not been determined.