

HABITAT FOR HUMANITY PHILADELPHIA, INC.

Financial Statements

For the years ended June 30, 2016 and 2015

(With Independent Auditor's Report thereon)

HABITAT FOR HUMANITY PHILADELPHIA, INC.
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For the years ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity Philadelphia, Inc.

We have audited the accompanying financial statements of Habitat for Humanity Philadelphia, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Philadelphia, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

November 10, 2016
Toms River, New Jersey

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position
June 30, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 691,741	\$ 1,214,883
Investments	-	83,536
Mortgage receivable - current portion net of accumulated amortization of \$173,225 and \$154,035, respectively	198,383	191,328
Accounts receivable, net of allowance for doubtful accounts of \$31,620 and \$24,245, respectively	274,812	489,189
Construction in progress	665,722	704,806
Prepaid expenses	52,704	36,640
Other current assets	18,140	1,832
Total current assets	<u>1,901,502</u>	<u>2,722,214</u>
Property and equipment:		
Land	5,000	5,000
Buildings and improvements	497,997	400,101
Office equipment and furnishings	30,581	30,581
Construction equipment	27,728	27,728
Transportation equipment	99,388	99,388
Total property and equipment	<u>660,694</u>	<u>562,798</u>
Less: accumulated depreciation	<u>(217,502)</u>	<u>(175,805)</u>
Property and equipment, net	<u>443,192</u>	<u>386,993</u>
Other Assets:		
Completed houses under lease purchase	85,000	85,000
Deposits	28,671	36,171
Loan origination fee, net of accumulated amortization of \$27,975 and \$23,779, respectively	34,971	39,167
Mortgage receivable net of accumulated amortization of \$3,221,362 and \$2,684,670, respectively	2,671,586	2,303,693
Investment in HFHI-SA Leverage III, LLC	1,481,611	1,458,154
Total other assets	<u>4,301,839</u>	<u>3,922,185</u>
Total assets	<u><u>\$ 6,646,533</u></u>	<u><u>\$ 7,031,392</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position (continued)
June 30, 2016 and 2015

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 58,709	\$ 99,971
Accrued payroll and payroll taxes	117,227	74,788
Accrued expenses	75,630	20,186
Notes payable - current	154,028	42,799
Total current liabilities	405,594	237,744
Long-term liabilities:		
Escrow deposits	106,503	107,311
Notes payable	1,810,237	1,964,310
Total long-term liabilities	1,916,740	2,071,621
Total liabilities	2,322,334	2,309,365
NET ASSETS		
Unrestricted	4,187,521	4,683,893
Temporarily restricted	136,678	38,134
Total net assets	4,324,199	4,722,027
Total liabilities and net assets	\$ 6,646,533	\$ 7,031,392

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 1,299,961	\$ -	\$ 1,299,961
Individuals	345,072	30,977	376,049
Corporations and foundations	600,923	1,015,915	1,616,838
Government	66,000	-	66,000
Churches and schools	22,704	88,226	110,930
Legacies and bequests	5,335	-	5,335
Amortization of mortgage discount	198,238	-	198,238
Interest	3,810	-	3,810
Donated materials and services	424,943	-	424,943
Special events	397,440	-	397,440
Restore	956,496	-	956,496
Home repairs	75,764	-	75,764
Other revenue	45,539	-	45,539
Realized gain (loss) on investments	17,869	-	17,869
Unrealized gain (loss) on investments	(15,258)	-	(15,258)
Net assets released from restrictions	1,036,574	(1,036,574)	-
	<u>5,481,410</u>	<u>98,544</u>	<u>5,579,954</u>
Total revenues and support			
Expenses:			
Program	4,853,535	-	4,853,535
Administrative	457,579	-	457,579
Fundraising	666,668	-	666,668
	<u>5,977,782</u>	<u>-</u>	<u>5,977,782</u>
Total expenses			
Change in net assets	<u>(496,372)</u>	<u>98,544</u>	<u>(397,828)</u>
Net assets, beginning of year	<u>4,683,893</u>	<u>38,134</u>	<u>4,722,027</u>
Net assets, end of year	<u>\$ 4,187,521</u>	<u>\$ 136,678</u>	<u>\$ 4,324,199</u>

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 1,086,822	\$ -	\$ 1,086,822
Net gain/(loss) on sales and disposals of assets	(15,743)	-	(15,743)
Individuals	301,155	11,693	312,848
Corporations and foundations	303,718	1,235,736	1,539,454
Government	680,820	-	680,820
Churches and schools	17,972	95,850	113,822
Legacies and bequests	35,212	-	35,212
Amortization of mortgage discount	153,373	-	153,373
Interest	4,411	-	4,411
Donated materials and services	127,555	-	127,555
Donated buildings	216,000	-	216,000
Special events	342,515	-	342,515
Restore	418,848	-	418,848
Home repairs	84,815	-	84,815
Other revenue	60,733	-	60,733
Unrealized gain (loss) on investments	(818)	-	(818)
Net assets released from restrictions	1,504,012	(1,504,012)	-
Total revenues and support	5,321,400	(160,733)	5,160,667
Expenses:			
Program	3,882,869	-	3,882,869
Administrative	347,710	-	347,710
Fundraising	497,710	-	497,710
Total expenses	4,728,289	-	4,728,289
Change in net assets	593,111	(160,733)	432,378
Net assets, beginning of year	4,090,782	198,867	4,289,649
Net assets, end of year	\$ 4,683,893	\$ 38,134	\$ 4,722,027

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2016

	Program Services			Support Services			Total
	Home Ownership	Critical Home Repair	Restore	Program Services	Management and General	Fundraising	
Americorps	\$ 72,213	\$ 22,773	\$ 7,340	\$ 102,326	\$ -	\$ 11,664	\$ 113,990
Bank fees	-	-	17,289	17,289	11,376	5,998	34,663
Construction/repair costs	1,648,987	573,204	-	2,222,191	-	-	2,222,191
Depreciation	2,205	2,944	22,386	27,535	14,162	-	41,697
Dues and subscriptions	3,507	760	3,351	7,618	3,605	3,756	14,979
Employee benefits	99,163	50,833	24,918	174,914	14,424	42,894	232,232
Insurance	49,551	38,139	24,456	112,146	1,137	961	114,244
Interest	-	-	-	-	28,563	-	28,563
Loan origination fee amortization	-	-	-	-	4,196	-	4,196
Miscellaneous	5,266	25,118	3,870	34,254	38,561	9,791	82,606
Mortgage amortization	754,120	-	-	754,120	-	-	754,120
Office expense	1,181	3,777	23,747	28,705	17,938	980	47,623
Payroll	281,046	341,334	258,137	880,517	119,551	399,880	1,399,948
Payroll service	-	-	-	-	6,044	-	6,044
Payroll taxes	43,336	33,850	24,972	102,158	11,644	39,079	152,881
Postage and delivery	335	569	36	940	4,558	5,921	11,419
Printing	1,818	668	1,719	4,205	5,830	19,199	29,234
Professional fees	38,316	-	3,283	41,599	84,620	40,300	166,519
Program expenses	928	5,408	59,906	66,242	4,398	1,427	72,067
Rent	-	5,400	154,450	159,850	-	-	159,850
Special event costs	3,290	-	-	3,290	-	72,650	75,940
Telephone	-	3,520	3,473	6,993	20,760	-	27,753
Tithe	-	-	-	-	53,500	-	53,500
Training and education	1,749	4,087	1,050	6,886	2,361	1,649	10,896
Travel	26,077	11,085	37,661	74,823	2,454	8,078	85,355
Utilities	-	1,557	21,481	23,038	7,897	-	30,935
Website	-	-	1,896	1,896	-	2,441	4,337
Total expenses	\$ 3,033,088	\$ 1,125,026	\$ 695,421	\$ 4,853,535	\$ 457,579	\$ 666,668	\$ 5,977,782

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2015

	Program Services			Total Program Services	Support Services			Total
	Home Ownership	Critical Home Repair	Restore		Management and General	Fundraising		
Americorps	\$ 68,616	\$ 23,289	\$ 100	\$ 92,005	\$ -	\$ 5,733	\$ -	\$ 97,738
Bank fees	100	-	8,614	8,714	20,181	10	-	28,905
Construction/repair costs	1,306,469	423,870	-	1,730,339	-	1,341	-	1,731,680
Depreciation	967	3,038	30,208	34,213	15,168	-	-	49,381
Dues and subscriptions	870	375	3,566	4,811	1,987	500	-	7,298
Employee benefits	65,179	40,071	9,945	115,195	6,721	23,855	-	145,771
Insurance	42,344	31,545	17,644	91,533	984	396	-	92,913
Interest	-	-	-	-	30,149	-	-	30,149
Loan origination fee amortization	-	-	-	-	4,196	-	-	4,196
Miscellaneous	5,454	31,150	1,518	38,122	23,355	3,587	-	65,064
Mortgage amortization	652,826	-	-	652,826	-	-	-	652,826
Office expense	1,256	2,478	21,166	24,900	27,510	138	-	52,548
Payroll	230,410	284,391	158,220	673,021	47,178	337,451	-	1,057,650
Payroll service	-	-	-	-	2,953	-	-	2,953
Payroll taxes	33,541	27,381	14,733	75,655	4,489	32,878	-	113,022
Postage and delivery	233	346	775	1,354	5,363	2,313	-	9,030
Printing	2,071	568	5,919	8,558	6,290	22,098	-	36,946
Professional fees	50,809	-	1,000	51,809	71,000	-	-	122,809
Program expenses	1,150	209	35,813	37,172	5,723	165	-	43,060
Rent	-	5,400	115,586	120,986	-	-	-	120,986
Special event costs	5,830	1,808	1,965	9,603	-	63,487	-	73,090
Telephone	-	2,035	3,929	5,964	15,730	-	-	21,694
Tithe	-	-	-	-	42,700	-	-	42,700
Training and education	4,581	2,572	650	7,803	4,749	1,770	-	14,322
Travel	8,425	7,529	62,242	78,196	1,697	1,116	-	81,009
Utilities	-	2,283	17,712	19,995	9,003	-	-	28,998
Website	15	-	80	95	584	872	-	1,551
Total expenses	\$ 2,481,146	\$ 890,338	\$ 511,385	\$ 3,882,869	\$ 347,710	\$ 497,710	\$ -	\$ 4,728,289

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (397,828)	\$ 432,378
Items which did not use cash:		
Depreciation	41,697	49,381
Donation of fixed assets	(8,284)	-
Donation of construction in progress	(148,341)	(343,555)
Unrealized loss on investments	(15,258)	(818)
Amortization of mortgage discount	555,882	499,453
Amortization of loan origination fee	4,196	4,196
Net gain (loss) on sales and disposals of fixed assets	-	22,558
Bad debt expense	7,335	28,479
Working capital changes which (used) provided cash:		
Accounts receivable	207,042	(216,963)
Mortgage receivable	(930,830)	(806,305)
Construction in progress	187,425	452,146
Prepaid expenses	(16,064)	(9,221)
Other current assets	(16,308)	13,419
Deposits	7,500	(20,000)
Accounts payable	(41,262)	54,891
Accrued payroll and payroll taxes	42,439	9,579
Accrued expenses	55,444	(65,472)
Escrow and lease deposits	(808)	2,624
Net cash (used) provided by operating activities	(466,023)	106,770
Cash flows from investing activities:		
Purchase of fixed assets	(89,612)	(244,065)
Net change in investments	75,337	(44,990)
Net cash used by investing activities	(14,275)	(289,055)
Cash flows from financing activities:		
Repayment of notes payable	(42,844)	(46,005)
Net cash used by financing activities	(42,844)	(46,005)
Net increase in cash	(523,142)	(228,290)
Cash, beginning of year	1,214,883	1,443,173
Cash, end of year	\$ 691,741	\$ 1,214,883
Other Supplementary Information:		
Interest paid	\$ 28,563	\$ 30,149

The accompanying notes to the financial statements are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements
For the years ended June 30, 2016 and 2015

NOTE 1: NATURE OF ORGANIZATION

Habitat for Humanity Philadelphia, Inc. (the Organization) was incorporated in February 2003 under the laws of the Commonwealth of Pennsylvania as a nonprofit, ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eradicate poverty housing, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds and repairs simple, decent houses with the help of low-income homeowner families. The Organization focuses its efforts in Philadelphia, Pennsylvania.

The houses built by the Organization and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowners' monthly mortgage payments are used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

The Organization operates a retail business (ReStore) that accepts donated home goods and building materials that are sold to the public. Proceeds from the ReStore are used by the Organization to build and repair homes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Method

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

B. Basis of Presentation

Habitat for Humanity Philadelphia, Inc. is required to report information regarding its financial position and activities that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions, as follows:

Unrestricted Net Assets – Net assets that are not subject to externally imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to externally imposed restrictions that will be met by the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

For the years ended June 30, 2016 and 2015, the Organization had accounting transactions in the unrestricted net assets and temporarily restricted net assets categories. For the years ended June 30, 2016 and 2015, there were no permanently restricted net assets.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Habitat for Humanity Philadelphia, Inc. reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash includes unrestricted time deposits, certificates of deposit and highly liquid debt instruments with original maturities of three months or less.

E. Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and or nature of any donor restrictions. All operating funds are available for the support of the Habitat for Humanity Philadelphia, Inc.'s operations and are therefore classified as unrestricted. Habitat for Humanity Philadelphia, Inc. recognizes contributions as restricted if donor imposed.

The Organization receives donations to fund acquisition, construction and rehabilitation costs of houses. These costs are capitalized as construction in progress. When the house is completed, it is transferred to a qualified family and recorded as a sale of property for the mortgage balance the homeowner assumes.

F. Functional Allocation of Expenses

Certain operating expenses have been allocated to program services based on the reasonable benefit that the programs derived from these expenses. There are various funding sources providing support towards the Organization's programs and some of the expenses charged to the programs represent direct expenses related to program operations and objectives.

G. Accounts Receivable

Accounts receivables are stated at the amount management expects to collect from outstanding accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivables.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Income Taxes

The Organization is a non-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes.

The Organization is required to file Form 990, Return of Organization Exempt from Income Tax, with the Internal Revenue Service and the New Jersey Charities Registration & Investigation Form (CRI). The Organization follows the income tax standards for uncertain tax positions. This standard had no impact on the Organization's financial statements. The Organization's income tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income taxes.

I. Property and Equipment

Land, buildings and building improvements, furniture and equipment are recorded at cost, except for donated assets, which are recorded at their estimated fair market value at the date of donation. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated lives are as follows:

Building and building improvements	15-39 years
Furniture, equipment and transportation equipment	5-7 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

J. Contributed Service and Materials

Unpaid volunteers have made significant contributions of their time to the Organization's activities. However, the value of the contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or evaluation. Construction materials, professional services, and fixed assets donated have been recorded at their estimated fair market value.

K. Investment Policy

Investments of the Organization are reported at fair market value as June 30, 2016 and 2015. Investment earnings on the Statement of Activities include interest, dividends and gains and losses on the sale of assets. Change in market value of assets held is reported as unrealized gains and losses.

L. Investment in Joint Venture

The Organization invested, along with five other Habitat affiliates, in a joint venture (HFHI-SA Leverage III, LLC) with 7.35 percent (7.35%) ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat has invested \$1,364,323 and was able to secure a

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Investment in Joint Venture (continued)

15-year loan in the amount of \$1,585,101 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years 1 through 7 at a reduced rate of 0.8126%. Beginning in year 8 through year 15 the principal balance of the loan is reduced by an eight-year amortization at the same rate of 0.8126%.

M. Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III).

If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The following methods and assumptions were used by Habitat in estimating the fair value of its financial instruments:

Mortgage receivables – The carrying amount is at net present value of the loan.

Notes payable – The carrying amount of one note is at net present value of the loan. For the remaining notes, the carrying values and interest rates are considered to approximate the net realizable value.

Accounts payable – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Fair Value Measurements (continued)

Common Stock – Valued at closing price reported in the active market in which the individual securities are traded.

N. Subsequent Events

The Organization has evaluated subsequent events occurring after the Statement of Financial Position date through the date of November 10, 2016, which is the date the financial statements were available to be issued. See Note 20.

NOTE 3: CASH

The deposits and investments held by the Organization at June 30, 2016 and 2015, and reported at fair value, are as follows:

	<u>Carrying Value</u>	
	2016	2015
Deposits:		
Demand Deposits	<u>\$ 691,741</u>	<u>\$ 1,214,883</u>
Total deposits	<u>\$ 691,741</u>	<u>\$ 1,214,883</u>
 Reconciliation of Statements of Financial Position		
Current assets:		
Cash and cash equivalents	<u>\$ 691,741</u>	<u>\$ 1,214,883</u>
Total reconciliation	<u>\$ 691,741</u>	<u>\$ 1,214,883</u>

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash had a bank balance of \$739,780 and \$1,269,982 at June 30, 2016 and 2015, respectively. Of the bank balance, \$709,064 and \$497,283 was fully insured by depository insurance at June 30, 2016 and 2015, respectively. \$30,716 and \$772,699 was uninsured at June 30, 2016 and 2015, respectively.

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash investments. The Organization limits the amount of credit exposure to any one financial institution and invests cash in accounts with high credit quality.

NOTE 4: INVESTMENTS

Investments are unrestricted assets stated at fair value and consist of equity investments. Fair value at June 30, 2016 and 2015, is \$1,481,611 and \$1,541,690, respectively.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 4: INVESTMENTS (continued)

	<i>Assets at Fair Value as of June 30, 2016</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
HFHI-SA Leverage III, LLC investment	\$ -	\$ -	\$ 1,481,611	\$ 1,481,611
Total assets at fair value	\$ -	\$ -	\$ 1,481,611	\$ 1,481,611

	<i>Assets at Fair Value as of June 30, 2015</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 83,536	\$ -	\$ -	\$ 83,536
HFHI-SA Leverage III, LLC investment	-	-	1,458,154	1,458,154
Total assets at fair value	\$ 83,536	\$ -	\$ 1,458,154	\$ 1,541,690

NOTE 5: MORTGAGES RECEIVABLE

Mortgages receivable consists of mortgages to homeowners. The mortgages are non-interest bearing and are secured by real estate. The mortgage loans are payable in monthly installments ranging from \$71 to \$456 over 10 to 30 year terms. The mortgages are discounted using rates provided by Habitat for Humanity International, Inc., which reflect the current market conditions. Mortgages receivable at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Mortgages receivable	\$6,264,556	\$ 5,333,726
Less: unamortized mortgage discount	<u>(3,394,587)</u>	<u>(2,838,705)</u>
Total net mortgages receivable	2,869,969	2,495,021
Less: current portion	<u>(198,383)</u>	<u>(191,328)</u>
Long-term portion	<u>\$ 2,671,586</u>	<u>\$ 2,303,693</u>

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivables consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Grant receivable	\$ 172,588	\$ 365,098
Donations receivable	29,261	46,422
Home repair program	<u>104,583</u>	<u>101,914</u>
Total accounts receivable	306,432	513,434
Less: allowance for doubtful accounts	<u>(31,620)</u>	<u>(24,245)</u>
Total accounts receivable, net	<u>\$ 274,812</u>	<u>\$ 489,189</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 7: CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred to build/rehabilitate single family dwellings. Upon completion of construction, these houses will be sold or leased under a lease purchase agreement until clear title can be transferred to the member family. The balance as of June 30, 2016 and 2015 was \$665,722 and \$704,806, respectively.

NOTE 8: OTHER CURRENT ASSETS

Other current assets consisted of prepaid gift cards totaling \$18,140 and \$1,832 as of June 30, 2016 and 2015, respectively.

NOTE 9: COMPLETED HOUSES UNDER LEASE PURCHASE

In some cases, houses completed and available are leased to the future homeowner until final closing and transfer of ownership occur. Prior to the transfer, the future homeowner makes payments, which the Organization holds and applies to defray closing costs. Once a family moves into the home, they are required to make monthly payments, which are applied toward real estate taxes, property insurance, and a down payment to reduce the mortgage they will assume. The balance as of June 30, 2016 and 2015 was \$85,000 and \$85,000, respectively.

NOTE 10: INVESTMENT IN HFHI-SA LEVERAGE III, LLC

For the years ended June 30, 2016 and 2015, the Organization participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in “qualified low-income community investment”. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

At June 30, 2010, the Organization recorded its 7.35% investment in HFHI-SA Leverage III, LLC at the cost. In December 2016, City First Capital Investment Fund, LLC, (the Fund), and the upstream effective owner of City First Capital 21, LLC (holder of the promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement HFHI-SA Leverage III, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the Fund.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Pennsylvania Housing Finance Agency (PHFA), a state agency, assumed 9 mortgages held by the Organization. The Organization is responsible for maintaining the mortgages by collecting the payments. Should a homeowner become delinquent, PHFA will require repayment and discontinue the agreement for that mortgage. As of June 30, 2016 and 2015, the Organization was contingently liable for the balance of those mortgages totaling \$151,594 and \$175,198, respectively.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 12: LINE OF CREDIT

The Organization has established a working capital line of credit in the amount of \$250,000 with a financial institution with an interest rate of 1% above the bank's prime rate. As of June 30, 2016 and 2015, there was no balance outstanding on the line. See Note 20 for additional information.

NOTE 13: NOTES PAYABLE

The Organization had the following notes outstanding at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
On June 20, 2013, the Organization refinanced a loan agreement with Habitat for Humanity International, Inc. (HFHI) in the amount of \$212,300 at 3.8%. The loan is to be paid quarterly over 7 years at \$8,671 per quarter principal and interest. A reserve fund equal to one quarter worth of principal and interest or \$8,671 was withheld by HFHI. The loan is secured by 12 existing mortgages of the Organization.	\$ 128,143	\$ 157,258
In November 2009, the Organization has established a \$1,585,101 loan payable with City First Capital 21, LLC in relation to the new markets tax credits program and related investment in joint venture. Debt requires interest only payments until December 1, 2016 at 0.8126% and matures in November 2024. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable December 2016 (see Note 10 above).	1,585,101	1,585,101
On January 4, 2015, the Organization refinanced a loan held by Santander Bank in the amount of \$270,356 at 3.85%. The loan is to be paid monthly over 5 years at \$1,987 per month, principal and interest, with the total remaining principal balance becoming due after 5 years. The loan is secured by Stiles Street properties.	<u>251,021</u>	<u>264,750</u>
Total net notes payable	1,964,265	2,007,109
Less: current portion	<u>(154,028)</u>	<u>(42,799)</u>
Long-term portion	<u>\$1,810,237</u>	<u>\$1,964,310</u>

Total maturities of notes payable for the year ending June 30, are as follows:

2017	\$ 154,028
2018	239,725
2019	243,101
2020	436,889
2021	198,215
2022-2024	<u>692,307</u>
Total	<u>\$ 1,964,265</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 14: NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

	<u>2016</u>	<u>2015</u>
Construction	\$505,348	\$460,077
Home repair program	472,657	660,415
Warehouse roof	-	2,804
Restore II	7,259	330,000
Strategic planning	-	1,061
Salaries	51,310	39,563
Home furnishings	<u>-</u>	<u>10,092</u>
Total releases of restrictions	<u>\$1,036,574</u>	<u>\$1,504,012</u>

NOTE 15: TRANSACTION WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

The Organization annually remits a portion of its unrestricted contributions, excluding in-kind contributions. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2016 and 2015, the Organization made contributions totaling \$53,500 and \$42,700, respectively.

NOTE 16: PENSION PLAN

The Organization has a 403(b) plan where employees may make payroll deductions, which may be tax deferred in accordance with the Internal Revenue Code. All funds contributed are 100% vested in the employee's name. On November 22, 2015, the Organization increased its maximum employer matching contribution from 2% to 3% of the employees' salary. The annual contribution for the years ended June 30, 2016 and 2015 was \$27,397 and \$16,750, respectively.

NOTE 17: OPERATING LEASES

The Organization leases space for its ReStore under an operating lease agreement expiring in July 2016 for the original ReStore location. As of June 30, 2015, the ReStore moved into a new location under an operating lease agreement expiring in January 2020. Additionally, the Organization leases three Ricoh copiers under operating leases expiring in March 2019, March 2020 and October 2020. Minimum future rental payments under the operating leases at June 30 are as follows:

2017	\$ 133,397
2018	136,511
2019	139,358
2020	<u>71,307</u>
	<u>\$ 480,573</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2016 and 2015

NOTE 18: IN-KIND DONATIONS

The Organization was the recipient of contributed legal services in the amount of \$35,787 and \$50,419 for the years ended June 30, 2016 and 2015, respectively. This was recorded in donated services and materials. In-kind donations for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Donated services and materials	\$ 424,943	\$ 125,055
Donated property	-	216,000
Donated vehicle	-	<u>2,500</u>
Total in-kind donations	<u>\$ 424,943</u>	<u>\$ 343,555</u>

NOTE 19: SALE OF MORTGAGE RECEIVABLES

On May 25, 2014, the Organization sold 16 mortgage loans. Under the terms of the transaction, the Organization received the net present value of the remaining payments. In addition, if before the 15th year anniversary of a mortgage loan the mortgaged property is sold, the buyer of the mortgages has agreed to pay to the Organization the difference between the mortgage loan amount, which was amortized over 30 years, and the payoff amount received.

In the event that a loan is delinquent, the Organization has agreed to reimburse the buyer of the mortgages the delinquent amount. As of June 30, 2016 and 2015, the Organization has elected not to record a reserve amount for this contingent liability due to the mortgage delinquency on the loans sold to be below 1%, which is immaterial to the financial statements.

NOTE 20: SUBSEQUENT EVENTS

Effective September 29, 2016, the Organization increased its available line of credit from \$250,000 to \$750,000.