

**HABITAT FOR HUMANITY PHILADELPHIA, INC.
AND SUBSIDIARY**

Financial Statements and Supplementary Schedules

For the year ended June 30, 2017

(With Independent Auditor's Report thereon)

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
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For the year ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity Philadelphia, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated 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 consolidated 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 consolidated 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 consolidated financial position of Habitat for Humanity Philadelphia, Inc. and Subsidiary as of June 30, 2017, 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.

Emphasis of Matter

As further discussed in Note 1 to the financial statements, Habitat for Humanity Philadelphia, Inc. organized HFHP Funding Company I, LLC on November 8, 2016. Habitat for Humanity Philadelphia, Inc. is the sole member of the limited liability company. As a result, HFHP Funding Company I, LLC has been consolidated into the financial statements of Habitat for Humanity Philadelphia, Inc. as a subsidiary during the year ended June 30, 2017.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Habitat for Humanity Philadelphia, Inc. and Subsidiary taken as a whole. The schedule of Consolidating Statement of Financial Position, Consolidating Statement of Activities and Consolidating Statement of Functional Expenses as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

October 6, 2017
Toms River, New Jersey

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidated Statement of Financial Position
June 30, 2017

	<u>2017</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,401,876
Investments	14,586
Mortgage receivable - current portion net of accumulated amortization of \$206,339	228,149
Accounts receivable, net of allowance for doubtful accounts of \$46,652	518,778
Construction in progress	167,017
Prepaid expenses	50,267
Other current assets	<u>29,969</u>
Total current assets	<u>2,410,642</u>
Property and equipment:	
Land	5,000
Buildings and improvements	637,320
Office equipment and furnishings	30,581
Construction equipment	27,728
Transportation equipment	<u>122,388</u>
Total property and equipment	823,017
Less: accumulated depreciation	<u>(260,927)</u>
Property and equipment, net	<u>562,090</u>
Other Assets:	
Completed houses under lease purchase	85,000
Deposits	10,000
Loan origination fee, net of accumulated amortization of \$686	33,914
Mortgage receivable net of accumulated amortization of \$4,133,258	<u>3,172,213</u>
Total other assets	<u>3,301,127</u>
Total assets	<u><u>\$ 6,273,859</u></u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidated Statement of Financial Position (continued)
June 30, 2017

	2017
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 74,835
Accrued payroll and payroll taxes	136,369
Accrued expenses	42,862
Notes payable - current	53,833
Total current liabilities	307,899
Long-term liabilities:	
Escrow deposits	128,764
Notes payable	1,662,880
Total long-term liabilities	1,791,644
Total liabilities	2,099,543
NET ASSETS	
Unrestricted	3,963,866
Temporarily restricted	210,450
Total net assets	4,174,316
Total liabilities and net assets	\$ 6,273,859

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidated Statement of Activities
For the year ended June 30, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 2,060,000	\$ -	\$ 2,060,000
Individuals	351,588	10,321	361,909
Corporations and foundations	263,888	1,627,310	1,891,198
Government	418,884	-	418,884
Churches and schools	59,307	17,250	76,557
Legacies and bequests	110	-	110
Amortization of mortgage discount	191,591	-	191,591
Interest	1,864	-	1,864
Donated materials and services	455,229	-	455,229
Special events	448,952	-	448,952
Restore	910,552	-	910,552
Home repairs	143,977	-	143,977
Other revenue	133,965	-	133,965
Realized gain (loss) on investments	116	-	116
Unrealized gain (loss) on investments	(319)	-	(319)
Net assets released from restrictions	1,581,109	(1,581,109)	-
	<u>7,020,813</u>	<u>73,772</u>	<u>7,094,585</u>
Total revenues and support			
Expenses:			
Program	6,118,485	-	6,118,485
Administrative	561,072	-	561,072
Fundraising	564,911	-	564,911
	<u>7,244,468</u>	<u>-</u>	<u>7,244,468</u>
Total expenses			
Change in net assets	<u>(223,655)</u>	<u>73,772</u>	<u>(149,883)</u>
Net assets, beginning of year	<u>4,187,521</u>	<u>136,678</u>	<u>4,324,199</u>
Net assets, end of year	<u>\$ 3,963,866</u>	<u>\$ 210,450</u>	<u>\$ 4,174,316</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the year ended June 30, 2017

	Program Services			Support Services			Total
	Home Ownership	Critical Home Repair	Restore	Program Services	Management and General	Fundraising	
Americorps	\$ 66,875	\$ 34,173	\$ -	\$ 101,048	\$ -	\$ 1,136	\$ 102,184
Bank fees	-	-	19,160	19,160	4,540	8,642	32,342
Construction/repair costs	1,816,679	841,661	-	2,658,340	-	-	2,658,340
Depreciation	2,456	2,185	26,977	31,618	11,807	-	43,425
Dues and subscriptions	2,892	892	4,874	8,658	8,830	2,849	20,337
Employee benefits	108,858	68,535	31,634	209,027	19,287	52,766	281,080
Insurance	58,020	45,833	28,919	132,772	1,643	2,345	136,760
Interest	-	-	-	-	44,338	-	44,338
Loan origination fee amortization	-	-	-	-	35,657	-	35,657
Miscellaneous	29,922	21,714	1,554	53,190	38,546	13,600	105,336
Mortgage amortization	1,212,311	-	-	1,212,311	-	-	1,212,311
Office expense	4,237	3,286	28,264	35,787	20,313	2,439	58,539
Payroll	233,907	448,562	378,019	1,060,488	211,841	302,841	1,575,170
Payroll service	-	-	-	-	6,182	-	6,182
Payroll taxes	47,119	40,729	34,673	122,521	19,340	28,056	169,917
Postage and delivery	298	899	839	2,036	3,696	3,410	9,142
Printing	2,304	662	2,858	5,824	3,420	20,707	29,951
Professional fees	56,051	800	904	57,755	24,791	32,714	115,260
Program expenses	61,398	11,228	64,759	137,385	5,013	4,891	147,289
Rent	-	5,400	144,536	149,936	-	-	149,936
Special event costs	-	-	-	-	-	77,973	77,973
Telephone	429	4,809	3,742	8,980	23,560	-	32,540
Tithe	-	-	-	-	55,000	-	55,000
Training and education	5,241	1,733	1,055	8,029	8,084	895	17,008
Travel	20,195	9,727	47,231	77,153	7,229	8,874	93,256
Utilities	-	2,029	24,438	26,467	7,955	-	34,422
Website	-	-	-	-	-	773	773
Total expenses	\$ 3,729,192	\$ 1,544,857	\$ 844,436	\$ 6,118,485	\$ 561,072	\$ 564,911	\$ 7,244,468

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidated Statement of Cash Flows
For the year ended June 30, 2017

	2017
Cash flows from operating activities:	
Change in net assets	\$ (149,883)
Items which did not use cash:	
Depreciation	43,425
Donation of construction in progress	(74,623)
Unrealized loss on investments	(319)
Amortization of mortgage discount	1,020,720
Amortization of loan origination fee	35,657
Bad debt expense	34,633
Working capital changes which (used) provided cash:	
Accounts receivable	(278,599)
Mortgage receivable	(1,551,113)
Construction in progress	573,328
Prepaid expenses	2,437
Other current assets	(11,829)
Deposits	18,671
Accounts payable	16,126
Accrued payroll and payroll taxes	19,142
Accrued expenses	(32,768)
Escrow and lease deposits	22,261
	<u>(312,734)</u>
Cash flows from investing activities:	
Purchase of fixed assets	(162,323)
Net change in investments	1,467,344
	<u>1,305,021</u>
Cash flows from financing activities:	
Cash received from notes payable	1,441,023
Repayment of notes payable	(1,688,575)
Cash paid on loan origination fee	(34,600)
	<u>(282,152)</u>
Net increase in cash	710,135
Cash, beginning of year	691,741
Cash, end of year	<u>\$ 1,401,876</u>
Other Supplementary Information:	
Interest paid	<u>\$ 44,338</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY

Notes to Financial Statements

For the year ended June 30, 2017

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.

HFHP Funding Company I, LLC (the Company) was organized by Habitat for Humanity Philadelphia Inc.'s board as a Pennsylvania single member limited liability company on November 8, 2016. The sole purpose of the Company is to engage solely in the activity of acquiring and holding and pledging mortgage loans and related documents originated by Habitat for Humanity Philadelphia, Inc. Any mortgage loans are acquired and held and pledged so as to comply with the terms of any note purchase agreement between the Company and any financial institution. Habitat for Humanity Philadelphia, Inc. is the sole shareholder of the Company. The Company was formed with a single member with the intent that it be a disregarded entity for the purpose of the Internal Revenue Code.

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. and Subsidiary 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.

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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 year ended June 30, 2017, the Organization had accounting transactions in the unrestricted net assets and temporarily restricted net assets categories. For the year ended June 30, 2017, there were no permanently restricted net assets.

The Organization 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. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Organizations listed in Note 1. The Organizations have common control since Habitat for Humanity Philadelphia Inc. is the sole member. There is also an element of economic interest since the HFHP Funding Company I, LLC holds significant resources that must be used only for purposes of the Habitat for Humanity Philadelphia, Inc. Inter-company transactions and balances have been eliminated in consolidation.

D. 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.

E. 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.

F. 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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Revenue Recognition (continued)

transferred to a qualified family and recorded as a sale of property for the mortgage balance the homeowner assumes.

G. 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.

H. 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.

I. Federal and State Income Taxes

Habitat for Humanity Philadelphia, Inc. is a non-profit entities 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.

HFHP Funding Company I, LLC was formed with Habitat for Humanity Philadelphia, Inc. as a single member limited liability company. As a result, the entity is recognized as a disregarded entity for the purpose of the Internal Revenue Code. A disregarded entity is not recognized for tax purposes as an entity separate from its owner.

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.

J. 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:

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Property and Equipment (continued)

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.

K. 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.

L. Investment Policy

Investments of the Organization are reported at fair market value as June 30, 2017 and 2016. 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.

M. 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 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%. On December 7, 2016, the Organization liquidated their share of the joint venture investment.

N. 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:

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fair Value Measurements (continued)

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.

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

O. Impact of Recently Issued Accounting Principles

Recently Issued Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, which is applicable for all entities that enter into contracts with customers to transfer goods and services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance or lease contracts). This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, the most industry-specific guidance. The core principal of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects. There are five steps to achieve this core principle. Entities can either apply this standard retrospectively to each prior reporting period presented or retrospectively

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Impact of Recently Issued Accounting Principles (continued)

apply with the cumulative effect at the date of initial application. This statement is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Organization has not yet implemented this ASU and is currently evaluating the impact of the adoption of this standard on the financial statement and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt accounts. This standard is effective for annual period ending after December 31, 2015. Implementation of this Statement did not impact the Organization’s financial statements.

In 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern*. This guidance is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016. The Organization has not yet implemented this ASU and is currently evaluating the impact of the adoption of this standard on the financial statement and related disclosures.

In February 2016, the FASB issued (ASU) 2016-02, *Leases*. The new ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and lease back transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. This standard will be effective for nonpublic businesses for fiscal years beginning after December 15, 2019. Early implementation will be permitted. The Organization has not yet implemented this ASU and is currently evaluating the impact of the adoption of this standard on the financial statement and related disclosures.

In August 2016, the FASB issued (ASU) 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this update affect not-for-profit entity’s (NFP’s) and the users of their general purpose financial statements. The amendments in this update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a not for profit’s liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet implemented this ASU and is currently evaluating the impact of the adoption of this standard on the financial statement and related disclosures.

In January 2017, the FASB issued (ASU) 2017-02, *Not-for-Profit Entities – Consolidation (Subtopic 958-810)*. The amendments in this update apply to a not for profit entity that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity. These amendments clarify when a not-for-profit entity that is a general partner or a limited

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Impact of Recently Issued Accounting Principles (continued)

partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective. This standard will become effective for fiscal years beginning after December 15, 2016. The Organization has not yet implemented this ASU and is currently evaluating the impact of the adoption of this standard on the financial statement and related disclosures.

P. Subsequent Events

The Organization has evaluated subsequent events occurring after the Statement of Financial Position date through the date of October 6, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH

The deposits held by the Organization at June 30, 2017, and reported at fair value, are as follows:

	2017
Deposits:	
Demand Deposits	<u>\$ 1,401,876</u>
Total deposits	<u>\$ 1,401,876</u>
 Reconciliation of Statements of Financial Position	
Current assets:	
Cash and cash equivalents	<u>\$ 1,401,876</u>
Total reconciliation	<u>\$ 1,401,876</u>

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash had a bank balance of \$1,452,999 at June 30, 2017. Of the bank balance, \$1,141,167 was fully insured by depository insurance at June 30, 2017. \$311,832 was uninsured at June 30, 2017.

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, 2017, is \$14,586.

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 4: INVESTMENTS (continued)

	<i>Assets at Fair Value as of June 30, 2017</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 14,586	\$ -	\$ -	\$ 14,586
Total assets at fair value	<u>\$ 14,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,586</u>

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended June 30, 2017:

	<i>Year Ended June 30, 2017</i>	
	<i>Investment</i>	
	<i>in HFHI-SA Leverage III, LLC</i>	
Balance, beginning of year	\$	1,481,611
Realized gains/(losses)		7,001
Purchases, sales, issuances, and settlements (net)		(1,488,612)
Balance, end of year	<u>\$</u>	<u>-</u>

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. The discount rate for the year ended June 30, 2017 was 7.47%. Mortgages receivable at June 30, 2017 were as follows:

	<u>2017</u>
Mortgages receivable	\$7,739,959
Less: unamortized mortgage discount	<u>(4,339,597)</u>
Total net mortgages receivable	3,400,362
Less: current portion	<u>(228,149)</u>
Long-term portion	<u>\$ 3,172,213</u>

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivables consisted of the following as of June 30, 2017:

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 6: ACCOUNTS RECEIVABLE (continued)

	<u>2017</u>
Grant receivable	\$ 129,852
Donations receivable	262,874
Home repair program	<u>172,704</u>
Total accounts receivable	565,430
Less: allowance for doubtful accounts	<u>(46,652)</u>
Total accounts receivable, net	<u>\$ 518,778</u>

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, 2017 was \$167,017.

NOTE 8: OTHER CURRENT ASSETS

Other current assets consisted of prepaid gift cards totaling \$29,969 as of June 30, 2017.

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, 2017 was \$85,000.

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

For the year ended June 30, 2017, 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) exercised its put option. Under the terms of the put option agreement HFHI-SA Leverage III, LLC purchased the ownership interest of the Fund. Exercise of the option effectively allowed Habitat to extinguish its outstanding debt owed to the Fund and liquidated Habitat’s share of the investment. As

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

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

of June 30, 2017, the investment in HFHI-SA Leverage III, LLC and corresponding debt balances were extinguished.

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, 2017, the Organization was contingently liable for the balance of those mortgages totaling \$130,293.

NOTE 12: LINE OF CREDIT

The Organization has established a working capital line of credit with Santander Bank in the amount of \$750,000 with a financial institution with an interest rate of 1% above the bank's prime rate. As of June 30, 2017 there was no balance outstanding on the line.

NOTE 13: NOTES PAYABLE

The Organization had the following notes outstanding at June 30, 2017:

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. \$ 236,724

On December 5, 2016, the Organization obtained a note payable for \$2,182,243 from PNC Community Development Company, LLC. Proceeds from the loan were \$1,478,087. The note includes \$680,056 of prepaid interest and \$24,100 of loan fees. The note is secured by \$865,472 of mortgages receivable (net of discount of \$1,316,771) as of June 30, 2017 and requires monthly payments ranging from \$252 to \$6,903 based on a payment schedule that is based on the anticipated amounts to be received from those mortgages receivable. The note matures May 9, 2046. 1,479,989

Total net notes payable 1,716,713

Less: current portion (53,833)

Long-term portion \$1,662,880

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 13: NOTES PAYABLE (continued)

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

2018	\$	53,833
2019		55,609
2020		247,774
2021		42,632
2022		43,928
2023-2027		240,515
2028-2032		279,387
2033-2037		313,260
2038-2042		307,502
2043-2046		<u>132,273</u>
Total		<u>\$ 1,716,713</u>

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>2017</u>
Construction	\$ 1,028,100
Home repair program	453,162
Restore	29,847
Salaries	-
Home furnishings	20,000
Capacity	<u>50,000</u>
Total releases of restrictions	<u>\$ 1,581,109</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, 2017, the Organization made contributions totaling \$55,000.

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 year ended June 30, 2017 was \$35,377.

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Notes to Financial Statements (continued)
For the year ended June 30, 2017

NOTE 17: OPERATING LEASES

The Organization leases space for its ReStore 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:

2018	\$ 136,511
2019	139,358
2020	<u>71,307</u>
	<u>\$ 347,176</u>

NOTE 18: IN-KIND DONATIONS

The Organization was the recipient of contributed legal services in the amount of \$48,138 for the year ended June 30, 2017. This was recorded in donated services and materials. In-kind donations for the year ended June 30, 2017 consisted of the following:

	<u>2017</u>
Donated services and materials	<u>\$ 424,943</u>
Total in-kind donations	<u>\$ 424,943</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, 2017, 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: RESTRICTION ON NET ASSETS

Temporarily restricted net assets at June 30, 2017 are available for the following purposes:

House sponsorships	\$ 186,675
Repair program	<u>23,775</u>
Total	<u>\$ 210,450</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidating Statement of Financial Position
June 30, 2017

ASSETS	2017			
	Habitat for Humanity Philadelphia, Inc.	HFHP Funding Company 1, LLC	Eliminations	Consolidated
Current assets:				
Cash and cash equivalents	\$ 1,179,335	\$ 222,541	\$ -	\$ 1,401,876
Investments	14,586	-	-	14,586
Mortgage receivable - current portion net of accumulated amortization of \$156,467 and \$49,872, respectively	181,592	46,557	-	228,149
Accounts receivable, net of allowance for doubtful accounts of \$46,652	518,778	-	-	518,778
Construction in progress	167,017	-	-	167,017
Prepaid expenses	50,267	-	-	50,267
Due to/from affiliate	-	381,928	(381,928)	-
Other current assets	29,969	-	-	29,969
	2,141,544	651,026	(381,928)	2,410,642
Total current assets				
Property and equipment:				
Land	5,000	-	-	5,000
Buildings and improvements	637,320	-	-	637,320
Office equipment and furnishings	30,581	-	-	30,581
Construction equipment	27,728	-	-	27,728
Transportation equipment	122,388	-	-	122,388
Total property and equipment	823,017	-	-	823,017
Less: accumulated depreciation	(260,927)	-	-	(260,927)
Property and equipment, net	562,090	-	-	562,090
Other Assets:				
Completed houses under lease purchase	85,000	-	-	85,000
Deposits	10,000	-	-	10,000
Loan origination fee, net of accumulated amortization of \$686	-	33,914	-	33,914
Mortgage receivable net of accumulated amortization of \$2,895,451 and \$1,237,807, respectively	2,374,728	797,485	-	3,172,213
	2,469,728	831,399	-	3,301,127
Total other assets				
Total assets	\$ 5,173,362	\$ 1,482,425	\$ (381,928)	\$ 6,273,859

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidating Statement of Financial Position (continued)
June 30, 2017

2017

	Habitat for Humanity Philadelphia, Inc.	HFHP Funding Company 1, LLC	Eliminations	Consolidated
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 74,835	\$ -	\$ -	\$ 74,835
Accrued payroll and payroll taxes	136,369	-	-	136,369
Accrued expenses	42,862	-	-	42,862
Due to/from affiliate	381,928	-	(381,928)	-
Notes payable - current	14,866	38,967	-	53,833
Total current liabilities	<u>650,860</u>	<u>38,967</u>	<u>(381,928)</u>	<u>307,899</u>
Long-term liabilities:				
Escrow deposits	128,764	-	-	128,764
Notes payable	221,858	1,441,022	-	1,662,880
Total long-term liabilities	<u>350,622</u>	<u>1,441,022</u>	<u>-</u>	<u>1,791,644</u>
Total liabilities	<u>1,001,482</u>	<u>1,479,989</u>	<u>(381,928)</u>	<u>2,099,543</u>
NET ASSETS				
Unrestricted	3,961,430	2,436	-	3,963,866
Temporarily restricted	210,450	-	-	210,450
Total net assets	<u>4,171,880</u>	<u>2,436</u>	<u>-</u>	<u>4,174,316</u>
Total liabilities and net assets	<u>\$ 5,173,362</u>	<u>\$ 1,482,425</u>	<u>\$ (381,928)</u>	<u>\$ 6,273,859</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidating Statement of Activities
For the year ended June 30, 2017

	Unrestricted			Temporarily Restricted		Consolidated Totals
	Habitat for Humanity Philadelphia, Inc.	HFHP Funding Company 1, LLC	Consolidated	Habitat for Humanity Philadelphia, Inc.	Consolidated	
Support and revenue:						
Sales to homeowners	\$ 2,060,000	\$ -	\$ 2,060,000	\$ -	\$ -	\$ 2,060,000
Individuals	351,588	-	351,588	10,321	-	361,909
Corporations and foundations	263,888	-	263,888	1,627,310	-	1,891,198
Government	418,884	-	418,884	-	-	418,884
Churches and schools	59,307	-	59,307	17,250	-	76,557
Legacies and bequests	110	-	110	-	-	110
Amortization of mortgage discount	162,499	29,092	191,591	-	-	191,591
Interest	1,834	30	1,864	-	-	1,864
Donated materials and services	455,229	-	455,229	-	-	455,229
Special events	448,952	-	448,952	-	-	448,952
Restore	910,552	-	910,552	-	-	910,552
Home repairs	143,977	-	143,977	-	-	143,977
Other revenue	133,965	-	133,965	-	-	133,965
Realized gain (loss) on investments	116	-	116	-	-	116
Unrealized gain (loss) on investments	(319)	-	(319)	-	-	(319)
Net assets released from restrictions	1,581,109	-	1,581,109	(1,581,109)	-	-
Total revenues and support	6,991,691	29,122	7,020,813	73,772	-	7,094,585
Expenses:						
Program	6,118,387	98	6,118,485	-	-	6,118,387
Administrative	561,072	-	561,072	-	-	561,072
Fundraising	564,911	-	564,911	-	-	564,911
Total expenses	7,244,370	98	7,244,468	-	-	7,244,370
Change in net assets	(252,679)	29,024	(223,655)	73,772	-	(178,907)
Net assets, beginning of year	4,187,521	-	4,187,521	136,678	-	4,324,199
Net assets, end of year	\$ 3,934,842	\$ 29,024	\$ 3,963,866	\$ 210,450	\$ -	\$ 4,174,316

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

HABITAT FOR HUMANITY PHILADELPHIA, INC. AND SUBSIDIARY
Consolidating Statement of Functional Expenses
For the year ended June 30, 2017

	Habitat for Humanity Philadelphia, Inc.				Support Services		HFHP Funding Company I, LLC		Consolidated Total		
	Program Services		Critical		Management and General		Fundraising			Program Services	
	Home Ownership	Home Repair	Restore	Total Program Services	-	-	-	-		Home Ownership	Total
Americorps	\$ 66,875	\$ 34,173	-	\$ 101,048	-	-	\$ 1,136	-	\$ 102,184	-	\$ 102,184
Bank fees	-	-	19,160	19,160	4,540	-	8,642	-	32,342	-	32,342
Construction/repair costs	1,816,679	841,661	-	2,658,340	-	-	-	-	2,658,340	-	2,658,340
Depreciation	2,456	2,185	26,977	31,618	11,807	-	-	-	43,425	-	43,425
Dues and subscriptions	2,892	892	4,874	8,658	8,830	-	2,849	-	20,337	-	20,337
Employee benefits	108,858	68,535	31,634	209,027	19,287	-	52,766	-	281,080	-	281,080
Insurance	58,020	45,833	28,919	132,772	1,643	-	2,345	-	136,760	-	136,760
Interest	-	-	-	-	44,338	-	-	-	44,338	-	44,338
Loan origination fee amortization	-	-	-	-	35,657	-	-	-	35,657	-	35,657
Miscellaneous	29,922	21,714	1,554	53,190	38,546	-	13,600	-	105,336	-	105,336
Mortgage amortization	1,212,213	-	-	1,212,213	-	-	-	-	1,212,213	98	1,212,311
Office expense	4,237	3,286	28,264	35,787	20,313	-	2,439	-	58,539	-	58,539
Payroll	233,907	448,562	378,019	1,060,488	211,841	-	302,841	-	1,575,170	-	1,575,170
Payroll service	-	-	-	-	6,182	-	-	-	6,182	-	6,182
Payroll taxes	47,119	40,729	34,673	122,521	19,340	-	28,056	-	169,917	-	169,917
Postage and delivery	298	899	839	2,036	3,696	-	3,410	-	9,142	-	9,142
Printing	2,304	662	2,858	5,824	3,420	-	20,707	-	29,951	-	29,951
Professional fees	56,051	800	904	57,755	24,791	-	32,714	-	115,260	-	115,260
Program expenses	61,398	11,228	64,759	137,385	5,013	-	4,891	-	147,289	-	147,289
Rent	-	5,400	144,536	149,936	-	-	-	-	149,936	-	149,936
Special event costs	-	-	-	-	-	-	77,973	-	77,973	-	77,973
Telephone	429	4,809	3,742	8,980	23,560	-	-	-	32,540	-	32,540
Tithe	-	-	-	-	55,000	-	-	-	55,000	-	55,000
Training and education	5,241	1,733	1,055	8,029	8,084	-	895	-	17,008	-	17,008
Travel	20,195	9,727	47,231	77,153	7,229	-	8,874	-	93,256	-	93,256
Utilities	-	2,029	24,438	26,467	7,955	-	-	-	34,422	-	34,422
Website	-	-	-	-	-	-	773	-	773	-	773
Total expenses	\$ 3,729,094	\$ 1,544,857	\$ 844,436	\$ 6,118,387	\$ 561,072	\$ 564,911	\$ 7,244,370	\$ 98	\$ 7,244,370	\$ 98	\$ 7,244,468

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