HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.

FINANCIAL STATEMENTS
Year Ended June 30, 2013
(With Comparative Totals for 2012)

HABITAT FOR HUMANITY OF
BUCKS COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013 and 2012, 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, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Baum, Smith & Clemens, LLP

Lansdale, PA
October 15, 2013

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current		
Cash - operating	$ 245,054	$ 179,123
Cash - escrow	124,582	240,552
Cash - money market	198,342	166,091
Mortgages receivable, current	199,462	112,121
Notes and loans receivable, current	19,556	12,834
Other receivables	46,780	3,014
Construction in progress	1,170,917	1,170,018
Inventory	141,325	145,070
Prepaid expenses	20,974	24,681
Total current assets	2,166,992	2,053,504
Property and equipment, net	59,681	50,421
Other		
Mortgages receivable, net of current portion and discount	947,078	976,596
Notes and loans receivable, net of current portion	90,872	92,177
Marketable securities	3,793,993	3,398,424
Investment in joint venture	3,915,739	3,853,178
Intangibles, net	137,166	149,269
Cash - restricted (NMTC)	108,207	136,830
Miscellaneous	22,079	18,152
Total other assets	9,015,134	8,624,626
Total assets	$ 11,241,807	$ 10,728,551
LIABILITIES		
Current		
Current portion of long-term debt	$ 350,345	$ 537,713
Line of credit	1,222,986	641,064
Accounts payable and accrued expenses	72,790	55,641
Deferred revenue	21,000	-
Escrows for real estate taxes and insurance	5,300	5,194
Total current liabilities	1,672,421	1,239,612
Long-term debt, net of current portion	4,896,637	5,561,052
Total liabilities	6,569,058	6,800,664
NET ASSETS		
Unrestricted	4,638,682	3,924,887
Unrestricted - board designated	-	3,000
Total unrestricted	4,638,682	3,927,887
Temporarily restricted	34,067	-
Total net assets	4,672,749	3,927,887
Total liabilities and net assets	$ 11,241,807	$ 10,728,551

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Total	2012 *
SUPPORT AND REVENUE				
Contributions	$ 529,253	$ 90,000	$ 619,253	$ 381,983
In-kind contributions	58,784	-	58,784	17,553
Fundraising activities, net	116,345	-	116,345	89,390
Net income from sale of merchandise	2,929	-	2,929	2,260
Sale of homes to Habitat homeowners	611,150	-	611,150	438,217
Amortization of mortgage discounts	126,974	-	126,974	82,751
Restore activity, from contributed inventory	457,793	-	457,793	468,543
Investment income	447,459	-	447,459	86,834
Other income	134,687	-	134,687	118,666
Net assets, released from restriction	55,933	(55,933)	-	-
Total support and revenue	2,541,307	34,067	2,575,374	1,686,197
EXPENSES				
Program services	1,535,751	-	1,535,751	1,606,494
Management and general	190,954	-	190,954	176,419
Fundraising expenses	103,807	-	103,807	105,523
Total expenses	1,830,512	-	1,830,512	1,888,436
Change in net assets	710,795	34,067	744,862	(202,239)
Net assets, beginning of year	3,927,887	-	3,927,887	4,130,126
Net assets, end of year	$ 4,638,682	$ 34,067	$ 4,672,749	$ 3,927,887

* All activity was unrestricted.

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	2013					
	Homeownership	ReStore	Total Program	Management & General	Fundraising	Total
Costs of homes sold to homeowners	$ 657,268	$ -	$ 657,268	$ -	$ -	$ 657,268
Gifts of equity to homeowners	8,000	-	8,000	-	-	8,000
Interest discounts, first mortgages	41,834	-	41,834	-	-	41,834
Salaries	129,357	146,534	275,891	101,168	60,812	437,871
Payroll taxes	24,491	18,652	43,143	9,697	5,798	58,638
Fringe benefits	35,734	28,061	63,795	8,186	6,828	78,809
Interest expense	68,389	-	68,389	-	-	68,389
Tithe	19,044	-	19,044	-	-	19,044
New market tax credit program	40,726	-	40,726	-	-	40,726
Fundraising expenses	-	-	-	-	1,150	1,150
Newsletter and promotion	2,294	8,488	10,782	6,836	14,950	32,568
Office expense	8,272	17,748	26,020	27,094	3,123	56,237
Other expenses	4,617	-	4,617	800	-	5,417
Professional fees	730	-	730	17,978	-	18,708
Travel and seminars	36,729	-	36,729	243	2,862	39,834
Rent	26,557	134,052	160,609	12,574	5,591	178,774
Depreciation	7,565	10,183	17,748	-	-	17,748
Insurance	12,574	4,000	16,574	412	-	16,986
Repairs and maintenance	7,200	10,815	18,015	1,922	874	20,811
Telephone and utilities	8,693	17,144	25,837	4,044	1,819	31,700
	$ 1,140,074	$ 395,677	$ 1,535,751	$ 190,954	$ 103,807	$ 1,830,512

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	2012					
	Homeownership	ReStore	Total Program	Management & General	Fundraising	Total
Costs of homes sold to homeowners	$ 448,766	$ -	$ 448,766	$ -	$ -	$ 448,766
Gifts of equity to homeowners	62,434	-	62,434	-	-	62,434
Impairment on constructed units	117,486	-	117,486	-	-	117,486
Discontinued projects	41,411	-	41,411	-	-	41,411
Interest discounts, first mortgages	62,706	-	62,706	-	-	62,706
Salaries	182,487	157,133	339,620	86,750	60,000	486,370
Payroll taxes	25,566	17,613	43,179	8,785	6,076	58,040
Fringe benefits	11,731	29,615	41,346	5,865	5,865	53,076
Interest expense	83,955	-	83,955	-	-	83,955
Tithe	21,567	-	21,567	-	-	21,567
New market tax credit program	43,679	-	43,679	-	-	43,679
Newsletter and promotion	2,457	3,728	6,185	10,312	15,813	32,310
Office expense	6,009	18,131	24,140	22,817	7,706	54,663
Other expenses	3,982	-	3,982	1,676	384	6,042
Professional fees	2,540	-	2,540	16,850	-	19,390
Travel and seminars	12,002	-	12,002	1,444	1,325	14,771
Rent	24,229	145,199	169,428	10,951	5,256	185,635
Depreciation	8,032	7,676	15,708	2,900	-	18,608
Insurance	21,139	1,514	22,653	939	1,370	24,962
Repairs and maintenance	4,070	11,793	15,863	3,079	-	18,942
Telephone and utilities	9,582	18,262	27,844	4,051	1,728	33,623
	$ 1,195,830	$ 410,664	$ 1,606,494	$ 176,419	$ 105,523	$ 1,888,436

HABITAT FOR HUMANITY OF BUCKS COUNTY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 744,862	$ (202,239)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	17,748	18,608
Transfer of debt to homeowners	(265,000)	(95,900)
Mortgage discounts - default	-	(57,471)
Mortgage receivable - default	-	102,688
Gift of equity returned	(18,722)	-
Mortgages issued	(78,096)	(105,199)
Mortgage discounts	41,834	62,706
Impairment on constructed units	-	117,486
Discontinued projects	-	41,411
Joint venture income	(99,706)	(99,434)
Joint venture amortization	12,103	12,103
Donated land	(32,465)	-
Donated securities	(10,045)	(15,006)
Unrealized/realized (gain)loss on investments	(343,271)	5,969
Amortization of mortgage discounts	(126,974)	(82,751)
Changes in assets and liabilities:		
Other receivables	(25,044)	3,667
Collection of mortgages receivable	132,834	132,421
Repayment to PHFA for mortgages	(27,421)	(22,451)
Construction in progress	31,566	(364,712)
Inventory	3,745	(35,583)
Prepaid expenses	3,707	476
Miscellaneous assets	(3,927)	-
Accounts payable and accrued expenses	17,149	(131,372)
Deferred revenue	21,000	-
Escrows for real estate taxes and insurance	106	(14,812)
Net cash used by operating activities	(4,017)	(729,395)
Cash flows from investing activities		
Reinvestment of dividends and interest	(104,174)	(92,166)
Transfer to operating	29,670	239,316
Capital expenditures	(27,008)	(10,400)
Distributions from joint venture	37,145	36,873
Notes and loans receivable, net	(5,417)	(4,150)
Transfer from escrow	115,970	89,412
Net cash provided by investing activities	46,186	258,885
Cash flows from financing activities		
Proceeds (payments) - lines of credit, net	581,922	(16,264)
Proceeds from long-term debt	141,387	598,956
Net repayments of long-term debt	(728,170)	(207,707)
Net cash (used)provided by financing activities	(4,861)	374,985
Net change in cash	37,308	(95,525)
Beginning cash	315,953	411,478
Ending cash	353,261	315,953
Less restricted cash	(108,207)	(136,830)
Ending cash - operating	$ 245,054	$ 179,123
Supplementary disclosure of cash flow information:		
Cash paid for interest:		
Interest paid - net of amount capitalized	$ 68,389	$ 83,955

See Accompanying Notes to Financial Statements

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 to build affordable homes, better lives, stronger families, and safer revitalized communities through partnerships with people and organizations throughout Bucks County. The Organization's activities focus primarily on three key areas: Homeownership, Basic Home Repairs, and the ReStore.

Homeownership

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

Basic Home Repairs

A Brush With Kindness is a program to serve low-income homeowners who, due to illness, age, or economic difficulties are unable to take care of basic repairs on the exterior of 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

A thrift-style retail outlet, the ReStore offers 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 have been started, 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.

Federal Financial Assistance

The Organization received Federal Financial Assistance in excess of $500,000 during the year ended June 30, 2013 and was subject to an audit under the guidelines of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Cash Non-operating

Cash - escrow has been reserved as collateral for a letter of credit, at the request of Milford Township, for paving and other common area expenses that may be incurred during the completion of construction at Emerald Hollow. The cash amount above the outstanding balance on the letter of credit is available to the organization for operations. The cash in escrow available to the organization as of June 30, 2013 and 2012 was approximately $2,500 and $119,000, respectively.

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

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

Mortgage Receivable

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

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

Notes and Loans Receivable

Upon sale of the properties to homeowners, the Organization advances the closing costs incurred on the sale of the property net of any deposit paid by the homeowner. The closing costs are repaid on a monthly basis over terms of 240, 300 or 360 months on a non-interest bearing basis. Some of the *A Brush with Kindness* homeowners are required to payback a portion of the home repair expense over a period of 5-10 years. Amounts due for this program are included in the current portion on the statement of financial position. 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 and condominiums are sold the accumulated costs for the homes are removed from construction in progress.

Inventory

Construction Materials

Inventory is valued at cost (first-in, first-out) or market, whichever is lower, and consists of construction materials and supplies.

ReStore

Inventory consists of donated building materials and household appliances and goods. Items are valued at thrift shop value.

Property, Equipment and Depreciation

All acquisitions in excess of $1,000 are capitalized. Property and equipment are stated 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.

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

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

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

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

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

Real Estate and Insurance Escrow Accounts
At settlement, the Organization may set up 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.

Designated Net Assets
The Board established an endowment fund with The Philadelphia Foundation (the Foundation). As stipulated in the fund agreement, the Board of Managers of the Foundation shall have the right to use the Fund for such other charitable purposes as deemed appropriate if it is not possible to use the funds in accordance with the governing instrument. During 2013, this fund was liquidated.

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.

The Organization records the value of contributed property and materials when there is an objective basis available to measure their value.

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

Sale of Homes to Habitat Homeowners

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

ReStore Activity

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

Functional Allocation of Expenses

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

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and has been classified 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 fiscal years prior to 2010.

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, impairment on real estate held by the Organization and the estimated joint venture income from the New Market Tax Credit Program (NMTC).

Reclassifications

Reclassifications of prior year totals have been reclassified to conform to current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued which was October 15, 2013.

NOTE B: CONCENTRATIONS OF CREDIT RISK

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

The Organization maintains accounts with a brokerage firm. The accounts contain cash and securities. Balances are insured up to $500,000 (with a limit of $250,000 for cash) 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.

NOTE C: MORTGAGES RECEIVABLE

The mortgages are payable by the homeowners in monthly installments ranging from $151 to $327 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, 2013 and 2012, of $41,834 and $62,706, respectively, have been included in the statements 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. At June 30, 2013 and 2012, the outstanding mortgage balances held by PHFA were $252,316 and $279,737, respectively.

Below is a summary of the mortgages receivable as of June 30, 2013 and 2012:

	2013	2012
Non-interest bearing mortgages receivable from homeowners	$ 2,583,695	$ 2,638,433
Mortgages receivable - PHFA	(252,316)	(279,737)
Valuation discount	(1,184,839)	(1,269,979)
Net mortgages receivable	1,146,540	1,088,717
Current maturities of mortgages receivable	(199,462)	(112,121)
	$ 947,078	$ 976,596

NOTE D: NOTES AND LOANS RECEIVABLE

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

	2013	2012
Current	$ 19,556	$ 12,834
Long-term	90,872	92,177
	$ 110,428	$ 105,011

NOTE E: CONSTRUCTION IN PROGRESS

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

	2013	2012
Penn Villa - West Rockhill	$ 1,030,943	$ 526,005
Chestnut St. - Perkasie	-	434,168
Corson St. - Bristol	37,000	-
Watson I - Bristol	-	160,619
Watson II - Bristol	102,974	49,226
	$ 1,170,917	$ 1,170,018

In May of 2012, the Organization purchased land in West Rockhill, PA for the construction of town homes. Penn Villa will consist of 10 town homes when completed.

In August of 2008, the Organization purchased a building in Perkasie, PA for the development of condominiums known as the Stitchery. As of June 30, 2013, all the condominiums were sold.

One single family home in Bristol, PA (Corson Street) was received as a donation during the fiscal year ended June 30, 2013 with the intention of renovating the home and reselling once completed.

Two plots of land in Bristol, PA (Watson Street) were purchased during the fiscal year ended June 30, 2011 with the intention of constructing a single family ranch style home on each lot.

NOTE F: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated useful lives in years	2013	2012
Office equipment	5	$ 24,606	$ 26,658
Vehicle	5	100,086	71,086
Construction equipment	5	538	538
Furniture and fixtures	7	10,224	10,224
Leasehold Improvements	10	31,516	31,516
		166,970	140,022
Less: accumulated depreciation		107,289	89,601
		$ 59,681	$ 50,421

Depreciation expense for the years ended June 30, 2013 and 2012 was $17,748 and $18,608, respectively.

NOTE G: MARKETABLE SECURITIES

Investments held by the Organization at June 30, 2013 and 2012 consist of:

	2013	2012
Mutual funds	$ 1,236,508	$ 1,217,827
Exchange traded funds	2,557,485	2,180,597
	$ 3,793,993	$ 3,398,424

Investment income is summarized as follows:

	2013	2012
Unrealized income (loss)	$ 343,133	$ (5,698)
Realized income (loss)	138	(271)
Dividends and interest	104,174	92,166
Other	14	637
	$ 447,459	$ 86,834

NOTE H: FAIR VALUE MEASUREMENT

The fair value measurement accounting literature establishes a fair value hierarchy framework for measuring fair value. That hierarchy 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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	Inputs to the valuation methodology include: ▪ Quoted prices for similar assets in active markets; ▪ Quoted prices for identical or similar assets or liabilities in inactive markets; ▪ Inputs other than quoted prices that are observable for the asset or liability; ▪ Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology 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, 2013.

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, such as a stock or bond index. The exchange traded funds held by the Organization are deemed to be actively traded.

As of June 30, 2013

	Level 1	*Level 2*	*Level 3*	*Total*
Mutual funds:				
Equity/growth funds	$ 207,380	$ -	$ -	$ 207,380
Debt/fixed income funds	1,029,128	-	-	1,029,128
Total mutual funds	1,236,508	-	-	1,236,508
Exchange traded funds				
Equity/growth	808,281	-	-	808,281
Equity	1,545,793	-	-	1,545,793
Other - REIT	203,411	-	-	203,411
Total exchange traded funds	2,557,485	-	-	2,557,485
Total assets at fair value	$ 3,793,993	$ -	$ -	$ 3,793,993

NOTE H: FAIR VALUE MEASUREMENT (Continued)

As of June 30, 2012

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity/growth funds	$ 166,071	$ -	$ -	$ 166,071
Debt/fixed income funds	1,051,756	-	-	1,051,756
Total mutual funds	1,217,827	-	-	1,217,827
Exchange traded funds				
Equity/growth	694,745	-	-	694,745
Equity	1,294,535	-	-	1,294,535
Other - REIT	191,317	-	-	191,317
Total exchange traded funds	2,180,597	-	-	2,180,597
Total assets at fair value	$ 3,398,424	$ -	$ -	$ 3,398,424

NOTE I: JOINT VENTURE

In November 2009, the Organization invested, along with five other Habitat affiliates, in a joint venture with a 21.0488 percent ownership in order to take advantage of New Market Tax Credit (NMTC) financing. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. The Organization invested $3,687,369 in the joint venture and was able to obtain a loan in the amount of $4,571,637, from a community development entity (an affiliate of the joint venture).

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

In connection with this arrangement, the Joint Venture has the option to buy back the Organization's ownership interest. The exercise of this option will effectively allow the Organization to extinguish its debt owed to the community development entity.

NOTE J: NEW MARKET TAX CREDIT PROGRAM

The following is a summary of the non-goodwill intangible incurred related to the New Market Tax Credit Program as of June 30, 2013 and 2012:

	2013	2012
Loan costs	$ 181,543	$ 181,543
Less accumulated amortization	44,377	32,274
	$ 137,166	$ 149,269

Amortization expense for the years ending June 30, 2013 and 2012 was $12,103. As of June 30, 2013 estimated amortization expense for the next five years and after is as follows:

2014	$ 12,103
2015	12,103
2016	12,103
2017	12,103
2018	12,103
Thereafter	76,651
	$ 137,166

In addition to the above amortization costs, guarantee fee expenses for the New Market Tax Credit Program were paid. For the years ending June 30, 2013 and 2012 the amortization and guarantee fees were $40,726 and 43,679, respectively.

NOTE K: LINE OF CREDIT

The line is renewable annually and is secured by the Organization's bank deposits and marketable securities held by the investment company, which are used as collateral. The interest rate is variable and was 1.94% and 2.03% at June 30, 2013 and 2012, respectively. At June 30, 2013 the available unused credit was approximately $902,000. The outstanding balance at June 30, 2013 and 2012 was $1,222,986 and $641,064, respectively.

The Organization had a line of credit that expired in October 2012, for $750,000. The interest rate was 3.25% at June 30, 2012. The outstanding balance at June 30, 2012 was $0.

In May 2013, the Organization obtained a line of credit that expires in June 2016, for $500,000. The interest rate was 3.25% at June 30, 2013. The Organization had no outstanding balance as of June 30, 2013.

NOTE L: LONG-TERM DEBT

Long-term debt consists of the following:	2013	2012
New Market Tax Credit note payable, collateralized by assets purchased with loan proceeds, .8126% interest rate; semi-annual payments of interest only until December 2016; principal and interest to be paid in semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over the following eight years, all outstanding principal due in November 2024. (See Note I)	$ 4,571,637	$ 4,571,637
Note payable, 7.65% interest, collateralized by certain mortgage receivables. $3,224 (principal and interest) payable monthly. The note was paid in full during April, 2013.	-	398,938
$750,000 Construction line of credit, collateralized by Perkasie property, interest payable on a monthly at prime rate (3.25%) at June 30, 2012). The line was paid in full during May, 2013.	-	329,232
Note payable, no interest, no payments due unless sale or refinance of property for the Stitchery located in Perkasie or other transfer of title, principal will be released and a lien placed on each individual condo as sold and lien will be transferred from Habitat to the buyer. The condos remaining were sold during fiscal year 2013 and all liens were transferred to the buyers.	-	200,002
Note payable up to $780,000, no interest, no payments due unless sale or refinance of property for Penn Villa located in West Rockhill, or other transfer of title; principal will be released and a lien placed on each individual town home as sold and lien will be transferred from Habitat to the buyer.	675,345	598,956
	5,246,982	6,098,765
Less: current portion	350,345	537,713
Long-term debt	$ 4,896,637	$ 5,561,052

NOTE L: LONG-TERM DEBT (Continued)

Aggregate maturities of long-term debt are as follows:

Years ending June 30	Amount
2014	$ 350,345
2015	325,000
2016	-
2017	-
2018	-
Thereafter	4,571,637
	$ 5,246,982

The Organization follows the policy of capitalizing construction interest as a component of the construction in progress. During the years ended June 30, 2013 and 2012, total interest incurred was $77,379 and $102,071, of which $68,389 and $83,955, respectively, was charged to operations.

NOTE M: LETTERS OF CREDIT

At June 30, 2013, the Organization had outstanding letters of credit of $646, $13,474 and $107,511. These letters of credit are expected to be released in November 2013 upon final approval of Milford Township regarding the Emerald Hollow development.

NOTE N: FUND RAISING ACTIVITIES

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

	2013	2012
Gross receipts	$ 135,048	$ 106,466
Expenses	18,703	17,076
Net fund raising	$ 116,345	$ 89,390

NOTE O: RESTORE ACTIVITY

The ReStore had the following activity for the years ended June 30, 2013 and 2012:

	2013	2012
ReStore sales	$ 461,538	$ 432,960
Contributions - change in inventory	3,376	35,583
Inventory write-offs	(7,121)	-
ReStore activity, from contributed inventory	$ 457,793	$ 468,543

NOTE P: 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 provides the option for an employer contribution. The Organization's contribution is discretionary from year to year. For the years ended June 30, 2013 and 2012, there were no contributions made by the Organization.

NOTE Q: 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, 2013 and 2012, the Organization voluntarily contributed $19,044 and $21,567, respectively, to Habitat for Humanity International. This amount is included in program services expense in the Statement of Activities.

NOTE R: ADDITIONAL INFORMATION

	2013	2012
Donated, property, goods and services	$ 58,784	$ 17,553
Advertising expense	$ 8,488	$ 10,240

NOTE S: LEASES

The Organization leases building space and office equipment under operating leases. The office and ReStore lease expires in 2018 and includes a monthly charge of operating expenses at $1.10 per square foot. The lease for office equipment expires in 2017.

Total rent expense was $178,772 and $185,653 for the years ending June 30, 2013 and 2012, respectively.

Future minimum rental payments under the operating leases as of June 30, 2013 are as follows:

Years ending June 30	Amount
2014	$ 196,122
2015	196,782
2016	196,782
2017	196,503
2018	193,434
Thereafter	16,120
	$ 995,743

NOTE T: 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 to Transfer
Penn Villa - West Rockhill	$ 644,864
Watson II - Bristol	$ 30,581

At June 30, 2013 approximately $40,000 is available from the programs for the Penn Villa and Watson II 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. This mortgage will only be due if the homeowner sells, refinances or transfers the property. The mortgage is forgiven over time.