

**HABITAT FOR HUMANITY OF
FRANKLIN COUNTY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2017

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Franklin County
Chambersburg, Pennsylvania

We have audited the accompanying financial statements of Habitat for Humanity of Franklin County (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 of Franklin County as of December 31, 2017, and the changes in its net assets and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Kotz & Stonesifer, P.C.

Chambersburg, Pennsylvania
August 28, 2018

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Current Assets

Cash	\$ 77,431
Cash - restricted	9,854
Prepaid expenses	10,731
Inventory	59,884
Houses under construction	145,585
Mortgages receivable - current portion - net	<u>53,242</u>
Total Current Assets	356,727

Property & Equipment

Construction equipment	2,900
Office equipment	14,117
Signage	3,677
Store equipment	13,848
Vehicles	<u>34,129</u>
	68,671
Less accumulated depreciation	<u>35,556</u>
Net Property & Equipment	33,115

Other Assets

Mortgages receivable - net of current portion & discounts	1,073,484
Land for development	69,722
Security deposits	<u>1,000</u>
Total Other Assets	<u>1,144,206</u>

TOTAL ASSETS	\$ <u>1,534,048</u>
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LIABILITIES AND NET ASSETS**Current Liabilities**

Accounts payable	\$ 5,063
Escrow liability	9,854
Payroll liabilities	6,796
Accrued payroll	10,886
Line of credit	<u>10,000</u>
Total Current Liabilities	42,599

Net Assets

Unrestricted	<u>1,491,449</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,534,048</u>
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See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Revenues	<u>Unrestricted</u>
Non-cash donations	\$ 504,698
ReStore sales	485,771
Home sales	302,243
Contributions	155,079
Imputed interest on mortgages receivable	42,827
Grant income	32,931
Miscellaneous	1,906
Interest income	<u>31</u>
Total Revenues	1,525,486
 Expenses	
Program services	1,336,979
Management & general	86,152
Fundraising	<u>38,442</u>
Total Expenses	<u>1,461,573</u>
 Change in Net Assets	63,913
 Net Assets - Beginning	<u>1,427,536</u>
 Net Assets - Ending	<u>\$ 1,491,449</u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services	Management & General	Fundraising	Total
Cost of goods sold	\$ 488,058	\$	\$	\$ 488,058
Cost of home sales	295,396			295,396
Payroll expenses	228,059	33,122	33,122	294,303
Mortgage discounts	109,686			109,686
Rent	57,000	12,000		69,000
Tithing - national	31,805			31,805
Advertising	17,650	5,121		22,771
Insurance	16,465	1,829		18,294
Vehicle expense	17,555			17,555
Supplies	13,767			13,767
Professional fees		12,798		12,798
Utilities	12,078			12,078
Depreciation	10,331	1,263		11,594
Licenses & filing fees	7,500			7,500
ReStore expenses	7,243			7,243
Repairs	6,818	300		7,118
Office		6,507		6,507
Credit card fees	6,421			6,421
Telephone	2,663	1,775		4,438
Mileage reimbursement	2,518	1,678		4,196
Landfill fees	3,811			3,811
Miscellaneous		3,763		3,763
Printing & reproduction			3,477	3,477
Education, conferences & registrations		3,386		3,386
Postage & delivery		614	1,843	2,457
Dues & subscriptions		1,371		1,371
Small equipment	1,129			1,129
Credit check	890			890
Bank service charges		625		625
Interest expense	136			136
Total Expenses	\$ 1,336,979	\$ 86,152	\$ 38,442	\$ 1,461,573

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF CASHFLOWS

For the Year Ended December 31, 2017

Cash Flows from Operating Activities:

Change in net assets	\$ 63,913
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	11,594
Mortgage discounts	109,686
Imputed interest on mortgages receivable	(42,827)
Net (increase) decrease in:	
Prepaid expenses	(1,771)
Inventory	(6,728)
Mortgages receivable	(201,818)
Land for development	16,396
Houses under construction	(73,021)
Net increase (decrease) in:	
Accounts payable	(5,048)
Escrow liability	(3,886)
Payroll liabilities	434
Accrued payroll	<u>1,006</u>
Net Cash Used in Operating Activities	(132,070)

Cash Flows from Investing Activities:

Purchases of property & equipment	(2,299)
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Cash Flows from Financing Activities:

Proceeds from line of credit	<u>10,000</u>
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Net Change in Cash	(124,369)
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Cash - Beginning	<u>211,654</u>
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Cash - Ending	<u>\$ 87,285</u>
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Supplemental Cash Flow Disclosures:

Cash paid for interest	\$ 136
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See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Habitat for Humanity of Franklin County, formed in 1993, is a Christian not-for-profit organization created to work with donors, volunteers, and homeowners to provide decent affordable housing for those in need in Franklin County, and to make shelter a matter of conscience with people in Franklin County.

Basis of Accounting

The financial statements of Habitat for Humanity of Franklin County have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Restricted contributions meeting their restrictions in the same year are presented as unrestricted. The Organization had no temporarily restricted net assets or permanently restricted net assets as of December 31, 2017.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less.

Inventory

Inventory, at the ReStore, consists of donated building materials and household appliances and goods. Items are valued based on subsequent sales, which approximates fair value.

Mortgages Receivable

The Organization has financed mortgages to homeowners, collateralized by first mortgages recorded as liens against the properties sold to the homeowner by the Organization. A valuation discount, based on the prime rate at date of purchase, has been recorded to reflect an interest rate for valuation purposes. The Organization deems all receivables to be collectible.

Equipment

Equipment is recorded at cost, or if donated, at fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major improvements are capitalized and recorded at cost.

Houses under Construction and Land for Development

All costs related to each project are recorded as either houses under construction or land for development. As the homes and/or land are sold, the accumulated costs for the homes and/or land are removed from houses under construction or land for development.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Escrow Liability

The Organization collects funds from the homeowners and holds them in escrow. Payments are made on behalf of the homeowners for real estate taxes and homeowners insurance on a semi-annual and annual basis, respectively.

Sales Tax

The Organization collects sales tax. The amount received is recorded in a liability account and as payments are made, the liability is reduced. The balance is recorded in accounts payable on the statement of financial position.

Donated Materials

Donated materials for construction projects are recorded as non-cash contributions in the statement of activities. They are recorded at fair market value.

Donated Services

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.

Home Sales

Home sales are recorded at the gross mortgage amount plus down payment received. Non-interest bearing mortgages have been discounted based upon the prime rate at the inception of the mortgage. The discount will be recognized over the term of the mortgage.

Advertising Costs

Advertising and marketing costs are expensed as incurred.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization is subject to potential examination by the Internal Revenue Service and various state taxing authority. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. Management believes the Organization is no longer subject to tax examination for years prior to 2014. The Organization has evaluated its tax positions for all open tax years and management believes all material tax positions taken would be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended December 31, 2017. If assessed, the Organization classifies any interest and penalties recognized with a tax position as expenses.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 these estimates.

Date of Management Evaluation

Management has evaluated subsequent events through August 28, 2018, the date which the financial statements were available to be issued.

NOTE 2: CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances at BB&T and F&M Trust. The balances, at times, are periodically in excess of the \$250,000 limit insured by the Federal Deposit Insurance Corporation. As of December 31, 2017, the Organization had no uninsured cash balances.

The Organization receives the majority of its revenues from contributions from businesses, churches, and individuals and from the sale of homes in the local geographic area.

NOTE 3: MORTGAGES RECEIVABLE

	Interest <u>Rate</u>	Discount <u>Rate</u>	<u>Collateral</u>	<u>Amount</u>
A***** Represents a 240-month mortgage note receivable dated December 2006 in the original amount of \$73,000. The loan requires monthly principal payments of \$304.	0%	8.25%	Residence	\$ 34,666
A***** Represents a 240-month mortgage note receivable dated October 2001 in the original amount of \$55,190. The loan requires monthly principal payments of \$229.	0%	5.50%	Residence	11,760

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 3: MORTGAGES RECEIVABLE - continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
A***** Represents a 300-month mortgage note receivable dated February 2016 in the original amount of \$127,980. The loan requires monthly principal payments of \$427.	0%	3.50%	Residence	118,810
C**** Represents a 293-month mortgage note receivable dated November 1998 in the original amount of \$53,600. The loan requires monthly principal payments of \$183.	0%	7.75%	Residence	11,833
C***** Represents a 300-month mortgage note receivable dated October 1999 in the original amount of \$55,000. The loan requires monthly principal payments of \$183.	0%	8.25%	Residence	19,880
E***** Represents a 240-month mortgage note receivable dated August 2005 in the original amount of \$68,900. The loan requires monthly principal payments of \$287.	0%	6.50%	Residence	26,386
F***** Represents a 240-month mortgage note receivable dated June 2001 in the original amount of \$60,000. The loan requires monthly principal payments of \$200.	0%	7.00%	Residence	2,300
F***** Represents a 300-month mortgage note receivable dated November 2013 in the original amount of \$80,000. The loan requires monthly principal payments of \$267.	0%	3.25%	Residence	68,505

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 3: MORTGAGES RECEIVABLE - continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
F***** Represents a 240-month mortgage note receivable dated September 2017 in the original amount of \$117,956. The loan requires monthly principal payments of \$491.	0%	4.25%	Residence	116,960
G**** Represents a 300-month mortgage note receivable dated February 2015 in the original amount of \$112,830. The loan requires monthly principal payments of \$376.	0%	3.25%	Residence	100,409
H*** Represents a 360-month mortgage note receivable dated August 2016 in the original amount of \$130,000. The loan requires monthly principal payments of \$360.	0%	3.50%	Residence	124,600
H*** Represents a 232-month mortgage note receivable dated October 2000 in the original amount of \$53,000. The loan requires monthly principal payments of \$229.	0%	9.50%	Residence	16,006
H***** Represents a 180-month mortgage note receivable dated December 2010 in the original amount of \$48,650. The loan requires monthly principal payments of \$271.	0%	3.25%	Residence	20,425
H**** Represents a 204-month mortgage note receivable dated October 2001 in the original amount of \$38,133. The loan requires monthly principal payments of \$188.	0%	5.50%	Residence	1,758

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 3: MORTGAGES RECEIVABLE - continued

	Interest <u>Rate</u>	Discount <u>Rate</u>	<u>Collateral</u>	<u>Amount</u>
K***** Represents a 300-month mortgage note receivable dated July 2012 in the original amount of \$61,883. The loan requires monthly principal payments of \$206.	0%	3.25%	Residence	49,406
L***** Represents a 240-month mortgage note receivable dated November 2014 in the original amount of \$86,686. The loan requires monthly principal payments of \$361.	0%	3.25%	Residence	69,486
L**** Represents a 264-month mortgage note receivable dated October 2015 in the original amount of \$123,090. The loan requires monthly principal payments of \$466.	0%	3.25%	Residence	110,360
M***** Represents a 360-month mortgage note receivable dated July 2002 in the original amount of \$64,200. The loan requires monthly principal payments of \$178.	0%	4.75%	Residence	30,525
P***** Represents a 360-month mortgage note receivable dated September 2016 in the original amount of \$128,324. The loan requires monthly principal payments of \$356.	0%	3.50%	Residence	123,579
R***** Represents a 360-month mortgage note receivable dated April 2006 in the original amount of \$66,100. The loan requires monthly principal payments of \$184.	0%	7.75%	Residence	42,545

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 3: MORTGAGES RECEIVABLE - continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
S***** Represents a 300-month mortgage note receivable dated August 2009 in the original amount of \$72,000. The loan requires monthly principal payments of \$240.	0%	3.25%	Residence	46,231
S***** Represents a 300-month mortgage note receivable dated November 2011 in the original amount of \$70,805. The loan requires monthly principal payments of \$236.	0%	3.25%	Residence	53,955
S***** Represents a 240-month mortgage note receivable dated December 2006 in the original amount of \$73,000. The loan requires monthly principal payments of \$304.	0%	8.25%	Residence	35,730
T***** Represents a 240-month mortgage note receivable dated October 2010 in the original amount of \$82,125. The loan requires monthly principal payments of \$343. In December 2012, an additional \$15,000 was loaned on the mortgage for sewer improvements.	0%	3.25%	Residence	69,115
T***** Represents a 300-month mortgage note receivable dated November 2017 in the original amount of \$184,298. The loan requires monthly principal payments of \$614.	0%	4.25%	Residence	184,298

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 3: MORTGAGES RECEIVABLE - continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
W*** Represents a 240-month mortgage note receivable dated January 2013 in the original amount of \$80,000. The loan requires monthly principal payments of \$333.	0%	3.25%	Residence	63,849
W***** Represents a 240-month mortgage note receivable dated September 2013 in the original amount of \$72,000. The loan requires monthly principal payments of \$300.	0%	3.25%	Residence	57,000
Total mortgages receivable				<u>1,610,377</u>
Less discount				<u>483,651</u>
Total mortgages receivable less discount				1,126,726
Less current portion				<u>53,242</u>
Mortgages receivable - net of current portion				<u>\$ 1,073,484</u>

At times the mortgagee's escrow balance reaches a deficit balance and that balance is added to the mortgage balance. This does not result in an increase in monthly principal payments.

In addition, the Organization has obtained second mortgages on all the properties in which they have a mortgage receivable. The second mortgages have the same term as the first mortgages. For each month that a payment is made on the first mortgage, a payment on the second mortgage is forgiven. If all payments are made on the first mortgage, no payments are required under the second mortgage.

NOTE 4: NON-CASH DONATIONS

Non-cash donations include such items as donated materials, services and real estate, which are recorded as contributions at their fair values at the date of donation. Non-cash donations reported in the financial statements include donated materials and labor valued at \$11,996 and donated services valued at \$203 for the year ended December 31, 2017. There was no donated real estate in 2017.

Non-cash donations received for ReStore amounted to \$492,499 for 2017. These donations are recorded as inventory and expensed when sold. If items are not sold within 45 days, they are disposed.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 5: LINES OF CREDIT

Habitat for Humanity of Franklin County has an outstanding line of credit from BB&T that provides a borrowing limit of \$50,000. The line carries a rate at the Wall Street Journal Prime Rate, with a minimum of 4.00%. The line must be rested for thirty consecutive days per year. There was no balance on the line of credit at December 31, 2017.

Habitat for Humanity of Franklin County also has an outstanding line of credit from F&M Trust that provides a borrowing limit of \$50,000. The line carries a rate at the Wall Street Journal Prime Rate, with a minimum of 4.00%. There was \$10,000 on the line of credit at December 31, 2017.

NOTE 6: LEASE COMMITMENTS

On June 1, 2016, the Organization entered into a non-cancelable operating lease for office space for one year. The rental costs \$1,000 per month. The lease will renew for an additional twelve months, upon the same terms.

On April 7, 2016, the Organization entered into a non-cancelable operating lease for storage space for one year. The rental costs \$300 per month. The lease will renew for an additional twelve months, upon the same terms.

On September 4, 2014, the Organization entered into a non-cancelable operating lease for the ReStore building, which began on October 5, 2014 and is set to expire on October 4, 2019 with a monthly cost of \$4,500. Under the lease agreement, the first two months were free and the third and fourth months were prepaid in the amount of \$9,000. The future minimum lease payments under operating leases are as follows:

Years Ending December 31

2018	\$ 69,600
2019	<u>46,400</u>
	<u>\$ 116,000</u>

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

NOTE 7: RESTORE FACILITY

The Organization has a ReStore facility which accepts donated home improvements and home furnishing items and sells them for amounts below market value. A summary of the ReStore transactions for 2017 is as follows:

Donations	492,499
Sales	485,771
Cost of Sales	<u>(488,058)</u>
Gross Profit	490,212
Store Operating Expenses:	
Compensation	128,694
Rent expense	57,000
Other expenses	51,819
Advertising	17,650
Vehicle expense	17,555
Depreciation	<u>10,331</u>
Total Store Operating Expenses	<u>283,049</u>
Net Profit	<u>\$ 207,163</u>

NOTE 8: RETIREMENT PLAN

The Organization has a SIMPLE IRA that covers substantially all full-time employees. Eligible employees have the right to make elective contributions, subject to annual limits detailed in the Internal Revenue Code. The Organization has elected to make matching contributions up to 3% of compensation. The employer contribution to the plan for the year ended December 31, 2017 amounted to \$6,304.

NOTE 9: CONTINGENCIES

The Organization received grant funding for the purchase and renovation of property to be sold to a qualified, low-income person/family. If the property is sold by the owner/occupant during the affordability period of fifteen years certain requirements and restrictions apply. If the property is sold within the affordability period the owner/occupant must (1) sell on the open market, in which the proceeds will be used to satisfy the mortgage and any other expenses initially incurred, (2) sell to another qualified, low-income person/family, or (3) the Organization may purchase the property back, in which the sale price will be the same as the amount of the balance due on the first mortgage.