



Hoffman Homes, Inc.

Financial Statements and Independent Auditors' Report

June 30, 2018

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**Gold underlines represent hyperlinks*

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hoffman Homes, Inc.

We have audited the accompanying Statement of Financial Position of Hoffman Homes, Inc. (a nonprofit organization) as of June 30, 2018, 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.

Auditors' 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 auditors' 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 Hoffman Homes, Inc. as of June 30, 2018, and the activities and their cash flows and functional expenses for the year then ended.

Stambaugh Ness, Inc.

York, Pennsylvania
October 17, 2018

HOFFMAN HOMES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS	
Cash	\$ 41,364
Accounts receivable - fee for service	1,391,118
Prepaid expenses	38,204
Food inventory	<u>4,916</u>
Total current assets	1,475,602
RESTRICTED CASH	151,451
INVESTMENTS	4,541,187
PROPERTY, PLANT AND EQUIPMENT	
Property, plant and equipment - at cost	15,093,764
Less: accumulated depreciation	<u>(12,281,245)</u>
Net property, plant and equipment	2,812,519
OTHER ASSETS	
Beneficial interest in perpetual trusts	2,846,032
Interest rate swap asset	<u>9,830</u>
TOTAL ASSETS	<u><u>\$ 11,836,621</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Line of credit	\$ 612,447
Cash overdraft	159,988
Accounts payable	77,724
Accrued payroll and related benefits	489,059
Current portion of long-term debt	391,863
Current portion of capital lease	6,441
Escrow accounts payable	6,798
Deferred revenue (commodities)	<u>4,916</u>
Total current liabilities	1,749,236
LONG-TERM LIABILITIES	
Long-term debt - net of current portion	2,685,439
Capital lease - net of current portion	7,555
Pension liability	<u>1,280,678</u>
Total long-term liabilities	<u>3,973,672</u>
TOTAL LIABILITIES	5,722,908
NET ASSETS	
Unrestricted:	
Undesignated	2,197,799
Temporarily restricted	229,990
Permanently restricted	<u>3,685,924</u>
TOTAL NET ASSETS	<u>6,113,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 11,836,621</u></u>

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Fees for services	\$8,656,856	\$ -	\$ -	\$8,656,856
Education income	2,147,237	-	-	2,147,237
Contributions	154,670	195,194	-	349,864
Food reimbursement	168,322	-	-	168,322
Miscellaneous income	74,153	-	-	74,153
Bequests	500	-	148,418	148,918
Investment gain	383,522	-	-	383,522
Irrevocable trust fund income	93,618	-	-	93,618
Changes in beneficial interest in perpetual trusts	-	-	47,079	47,079
Net assets released from restrictions:				
Restrictions satisfied by fulfilling purpose	<u>132,330</u>	<u>(132,330)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	11,811,208	62,864	195,497	12,069,569
EXPENSES AND LOSSES				
Administration	1,958,757	-	-	1,958,757
Clinical services	5,758,576	-	-	5,758,576
Culinary	437,580	-	-	437,580
Development	190,713	-	-	190,713
Healthcare	1,292,803	-	-	1,292,803
Operations	919,190	-	-	919,190
Education (Hoffman Academy)	<u>1,164,105</u>	<u>-</u>	<u>-</u>	<u>1,164,105</u>
Total expenses and losses	11,721,724	-	-	11,721,724
OTHER CREDITS AND CHARGES				
Defined benefit plan changes other than net periodic pension expense	504,154	-	-	504,154
Unrealized gain on interest rate swaps	<u>22,555</u>	<u>-</u>	<u>-</u>	<u>22,555</u>
Total other credits and charges	<u>526,709</u>	<u>-</u>	<u>-</u>	<u>526,709</u>
INCREASE IN NET ASSETS	616,193	62,864	195,497	874,554
NET ASSETS				
Beginning of year	<u>1,581,606</u>	<u>167,126</u>	<u>3,490,427</u>	<u>5,239,159</u>
End of year	<u><u>\$2,197,799</u></u>	<u><u>\$ 229,990</u></u>	<u><u>\$ 3,685,924</u></u>	<u><u>\$6,113,713</u></u>

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Administration	Clinical Services	Culinary	Development	Healthcare	Operations	Education (Academy)	Total
Salaries	\$ 827,939	\$ 4,416,418	\$ 87,617	\$ 115,676	\$ 615,319	\$ 228,865	\$ 845,975	\$ 7,137,809
Employee benefits*	234,511	1,231,021	37,475	7,272	173,189	57,634	160,031	1,901,133
Contracted services***	75,809	27,315	-	-	452,403	4,080	130,844	690,451
Utilities**	41,331	8,357	-	-	-	329,837	500	380,025
Depreciation expense	372,620	-	-	-	-	-	-	372,620
Food and food service supplies	-	-	308,121	763	-	-	-	308,884
Bad debt expense	144,488	-	-	-	-	-	-	144,488
Interest expense	141,958	-	-	-	-	-	-	141,958
Housekeeping and sanitation	-	-	-	35	2,456	107,028	-	109,519
Insurance - property and liability	-	-	-	-	-	102,537	-	102,537
Maintenance and repairs	162	235	3,946	-	-	56,844	-	61,187
Miscellaneous expense	31,607	16,940	-	16,193	-	-	-	64,740
Medical/dental supplies and expense	-	6,623	-	-	47,745	-	-	54,368
Office supplies/equipment	4,887	16,314	69	1,405	1,324	7,323	20,168	51,490
Development	3,845	238	-	44,988	-	-	-	49,071
Lease expense	42,122	-	-	-	-	-	-	42,122
Staff development/recruitment	12,055	24,662	352	675	-	-	1,045	38,789
Computer expenses	16,224	565	-	1,320	252	609	5,542	24,512
Travel/vehicle expense	33	2,636	-	161	-	24,389	-	27,219
Postage	9,166	955	-	338	115	44	-	10,618
Advertising	-	5,000	-	1,887	-	-	-	6,887
Behavior management	-	1,297	-	-	-	-	-	1,297
	<u>\$ 1,958,757</u>	<u>\$ 5,758,576</u>	<u>\$ 437,580</u>	<u>\$ 190,713</u>	<u>\$ 1,292,803</u>	<u>\$ 919,190</u>	<u>\$ 1,164,105</u>	<u>\$ 11,721,724</u>

* Includes Social Security, Unemployment Tax, Workers Compensation, Medical, Life, Dental, Pension and Employee Assistance Program.

** Includes telephone, electricity, fuel oil, water & sewer, cable TV and propane gas.

*** Includes legal, accounting, psychiatric and other professional services.

See accompanying notes.

HOFFMAN HOMES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 874,554
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation expense	380,025
Bad debt expense	144,488
Realized and unrealized gain on investments	(383,522)
Unrealized gain on interest rate swaps	(22,555)
Changes in beneficial interest in perpetual trusts	(47,079)
Defined benefit plan changes other than net periodic pension expense	(504,154)
Change in:	
Accounts receivable - fee for service	34,194
Accounts receivable - other	30,000
Prepaid expenses	78,627
Food inventory	(4,916)
Restricted cash	(31,256)
Accounts payable	(53,978)
Accrued payroll and related benefits	40,052
Accrued interest	(1,462)
Escrow accounts payable	5,265
	538,283
Net cash from operating activities	538,283

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment	(172,242)
Purchase of investments	(1,311,306)
Proceeds from sale of investments	1,320,459
	(163,089)
Net cash from investing activities	(163,089)

CASH FLOWS FROM FINANCING ACTIVITIES

Net change in line of credit	(1,524,951)
Proceeds from long-term debt	1,500,000
Net change in cash overdraft	45,711
Payments on long-term debt	(360,989)
	(340,229)
Net cash from financing activities	(340,229)

NET CHANGE IN CASH

	34,965
Cash at beginning of year	6,399
	6,399
Cash at end of year	\$ 41,364
	\$ 41,364

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	\$ 141,958
	\$ 141,958

See accompanying notes.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hoffman Homes, Inc. ("Organization") is a private, not-for-profit, Pennsylvania Corporation related to the United Church of Christ.

The purpose of Hoffman Homes, Inc. is to provide comprehensive psychiatric care, treatment, and education to emotionally and behaviorally troubled children and their families. Hoffman Homes, Inc. is committed to providing services that are cost effective and responsive to the unique needs of each child, always in close cooperation with the parents/guardians, referring agencies, case management organizations, school systems, and funding sources. Hoffman Homes, Inc. grants credit to the agencies that place the youth in their facilities. The agencies that purchase services from Hoffman Homes, Inc. are located in Pennsylvania.

Hoffman Homes, Inc. also operates the Hoffman Academy ("Academy") under the Pennsylvania State Board of Academic Schools. The Academy provides differentiated instruction to meet the diverse needs of students with complex behavioral concerns. All programs are operated according to the guidelines established by the Pennsylvania Department of Revenue and the Pennsylvania Department of Education. Students have their needs assessed and then receive instruction designed specifically to their academic level.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The financial statements of Hoffman Homes, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, Hoffman Homes, Inc. 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.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Hoffman Homes, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2018.

Restricted Cash

These amounts represent cash that has been restricted by donors, as well as by Board designation.

Accounts Receivable

Accounts receivable balances are reviewed by management monthly. Any account over sixty days past due based on contractual terms is analyzed. Management believes that at June 30, 2018, no allowance is necessary as all accounts are deemed collectible. Account balances generally are written off when management judges such balances uncollectible.

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period the promise is made. Conditional promises to give are recognized when the conditions on which they depend on are substantially met.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All 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 the 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 restrictions.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Beneficial Interest in Perpetual Trusts

Hoffman Homes, Inc. recognizes its interests in irrevocable perpetual trust agreements of which it has been named an income beneficiary. The assets reported in the Statement of Financial Position represent Hoffman Homes, Inc.'s beneficial interest in the fair market value of the irrevocable perpetual trusts. Upon Hoffman Homes, Inc. being named an income beneficiary of an irrevocable perpetual trust, the initial interest is recognized as permanently restricted bequest income. Hoffman Homes, Inc. also recognizes changes in the fair market value of its beneficial interests in perpetual trusts in the permanently restricted section of the Statement of Activities.

Income Tax Status

Hoffman Homes, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Section 501(c)(3) defines the exempt organization as being "organized and operated for religious, charitable, scientific, testing for public safety, literacy or educational purposes, or for the prevention of cruelty to children or animals." In addition, Hoffman Homes, Inc. qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision for federal or state income taxes has been recorded in the financial statements. Adjustments, if any, for uncertain tax positions would be recorded as a liability. The Organization is no longer subject to tax examinations by tax authorities for years before 2015.

The Organization would also recognize accruals for interest and penalties related to uncertain tax positions in its interest expense.

Allocation of Functional Expenses

Expenses reported on Hoffman Homes, Inc.'s Statement of Functional Expenses are allocated directly to their functional categories.

Concentrations of Credit Risk

The financial instruments that potentially subject Hoffman Homes, Inc. to credit risk consist primarily of cash, investments and accounts receivable that represent amounts due for per diem fees from managed care organizations, government agencies, and private pay clients. Hoffman Homes, Inc. maintains its cash deposits and investments with various financial institutions where the account balances may at times exceed FDIC insured limits.

At June 30, 2018, accounts receivable from two managed care organizations and one school district accounted for 70% of total accounts receivable. Two managed care organizations provided 71% of total fee for service and education income revenue during the year ended June 30, 2018.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled \$6,887 for the year ended June 30, 2018.

Fair Value of Financial Instruments

Accounting Standards Codification 820, *Fair Value Measurements*, provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. Accounting Standards Codification 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting Standards Codification 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounting Standards Codification 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The estimated fair values of the Organization's financial instruments for the fiscal year ended June 30, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 49,949	\$ -	\$ -	\$ 49,949
Mutual funds	2,637,852	-	-	2,637,852
Mutual funds - fixed income	1,169,453	-	-	1,169,453
Common stock	629,984	-	-	629,984
Real estate investment trusts	-	-	53,949	53,949
Beneficial interests in perpetual trusts	-	-	2,846,032	2,846,032
Derivative instruments - swap	-	9,830	-	9,830
	<u>\$ 4,487,238</u>	<u>\$ 9,830</u>	<u>\$ 2,899,981</u>	<u>\$ 7,397,049</u>

The change in Level 3 fair value inputs is as follows:

Beginning balance	\$ 2,778,586
Bequest received	148,418
Unrealized loss	<u>(27,023)</u>
Ending balance	<u>\$ 2,899,981</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Property, Plant and Equipment

Hoffman Homes, Inc. capitalizes all expenditures for property and equipment with a useful life greater than one year and a cost in excess of \$1,000. Purchased property and equipment are carried at cost. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the respective assets.

Equipment, new construction costs, furnishings, building improvements, land, and vehicles are stated at cost. Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of the asset are capitalized. Maintenance and repairs are charged to expense as incurred. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is reflected in the Statement of Activities.

Donations of property and equipment are recorded as contributions at their estimated fair value on the date received. Hoffman Homes, Inc. does not apply time restrictions with respect to donated property and equipment.

Compensated Absences

Employees of Hoffman Homes, Inc. are entitled to paid time off and sick bank days. It is Hoffman Homes, Inc.'s policy to pay accrued paid time off when an employee resigns with proper notice. Sick bank days are only available for use during an extended illness and are not paid out upon separation of employment. The liability resulting from these policies has been recorded in the financial statements.

Revenue Recognition

Grant revenue which is determined to be an exchange transaction, is classified as unrestricted revenue or deferred revenue, as appropriate, when received or receivable. Such grant revenue is not deemed to be a contribution, since the proceeds thereof are used to pursue objectives of the grantor.

Grant revenue which is deemed to be a contribution, is classified as temporarily restricted revenue when received or receivable. Such grant revenue is not in respect of exchange transactions, since the proceeds are non-reciprocal, unconditional and voluntary.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are restricted for future periods or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, Hoffman Homes, Inc. reports the support as unrestricted.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - continued

Upcoming Pronouncements

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities. The standard improves current requirements related to net asset classifications, underwater endowments, liquidity assessment, expense reporting consistency, and methods used to present cash flow from operations. This guidance is effective for fiscal years beginning after December 15, 2017.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expenses recognition in the income statement. The guidance is effective for fiscal years beginning after December 15, 2019.

The Organization is currently evaluating the impact of the pending adoption of the new standards above on the financial statements.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE B - IRREVOCABLE TRUST FUND INCOME

Hoffman Homes, Inc. receives income from several irrevocable trusts. The following provides income distributions from the listed trusts that are attributed to the year ended June 30, 2018:

<u>Trustee</u>	<u>Trust</u>	<u>Trust Income</u>
BB&T Jesse Park	Lola Crawford	\$ 20,963
PNC	Katherine H Glatfelter	12,323
James and Sharon Franklin	Frances C. Mowery	11,304
BB&T Jesse Park	Francis A. Crawford	10,399
Wilmington Trust	Florence & Stewart Bortner	9,378
Fulton Financial Advisors	Crouse Trust	7,412
Fulton Financial Advisors	John L Gerber	6,227
Trust Corp America	Estella Yingling	4,254
Fulton Financial Advisors	Ammon & Dorothy Patrick	2,595
Iventrust	Various Customer	2,502
PNC	Emma M Duttera	2,082
M&T	Mamie B Bush	1,478
Wilmington Trust	Jacob Schnader	1,296
Wilmington Trust	Elmira Quickel	1,224
Wilmington Trust	Jessie S Omwake	<u>181</u>
		<u>\$ 93,618</u>

NOTE C - PROPERTY, PLANT AND EQUIPMENT

Below is a summary of the activity in the property, plant and equipment accounts as of June 30, 2018:

	<u>July 1, 2017</u>	<u>Additions (Deletions)</u>	<u>June 30, 2018</u>
Buildings	\$ 10,252,771	\$ 58,255	\$ 10,311,026
Furniture and fixtures	1,743,255	-	1,743,255
Equipment	1,383,521	113,987	1,497,508
Vehicles	238,507	-	238,507
Land improvements	955,575	-	955,575
Water tower	103,893	-	103,893
Sewage treatment plants	<u>244,000</u>	<u>-</u>	<u>244,000</u>
	14,921,522	172,242	15,093,764
Less: accumulated depreciation	<u>(11,908,625)</u>	<u>(372,620)</u>	<u>(12,281,245)</u>
Net property, plant and equipment	<u>\$ 3,012,897</u>	<u>\$ (200,378)</u>	<u>\$ 2,812,519</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2018, temporarily restricted net assets are available as follows:

Purpose restrictions:	
Building/equipment repairs	\$ 113,539
Music therapy	4,253
Creative therapies	13,644
Housing construction or upgrades	<u>79,250</u>
Total purpose restrictions	210,686
Time restrictions:	
Bequest to be held in trust for 50 years	<u>19,304</u>
Total time restrictions	<u>19,304</u>
	<u>\$ 229,990</u>

NOTE E - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the beneficial interest in perpetual trusts and bequests received by Hoffman Homes, Inc. in which the donor has restricted the use of the principal portion of the gift.

As of June 30, 2018, permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

Scholarships	\$ 7,785
Unrestricted uses	<u>3,678,139</u>
	<u>\$ 3,685,924</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE F - OPERATING LEASES

Hoffman Homes, Inc. leases equipment and vehicles under numerous operating leases with various expiration dates.

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

<u>June 30.</u>	
2019	\$ 33,100
2020	33,100
2021	33,100
2022	<u>3,393</u>
	<u>\$ 102,693</u>

Rental expense amounted to \$42,122 for the year ended June 30, 2018.

NOTE G - CAPITAL LEASE

In August 2016 the Organization entered into a capital lease for equipment requiring monthly payments of \$607 for 48 months and containing a purchase option at the end of the lease for \$1. Amortization is included with depreciation expense on the Statement of Functional Expenses.

The following is an analysis of the leased property at June 30, 2018:

Computers	\$25,052
Less: Accumulated amortization	<u>(11,482)</u>
	<u>\$13,570</u>

Following are the future minimum payments on the above lease as well as the interest component:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 6,441	\$ 848	\$ 7,289
2020	6,951	338	7,289
2021	<u>604</u>	<u>4</u>	<u>608</u>
	<u>\$13,996</u>	<u>\$ 1,190</u>	<u>\$15,186</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE H - INVESTMENTS

Investments consist of the following as of June 30, 2018:

Cash	\$ 49,949
Common stock	629,984
Mutual funds and alternative investments	2,637,852
Mutual funds - fixed income	1,169,453
Real estate investment trusts	<u>53,949</u>
	<u>\$ 4,541,187</u>

The following is a schedule of the components of investment gain as shown in the Statement of Activities for the year ended June 30, 2018:

Interest and dividends (net of fees)	\$ 179,486
Realized gain	28,484
Unrealized gain	<u>175,552</u>
	<u>\$ 383,522</u>

NOTE I - ESCROW ACCOUNTS PAYABLE

The youths' individual account balances are maintained by the Hoffman Homes, Inc.'s business office. This money may be withdrawn for personal needs during a youth's stay. At the time of discharge, the total amount held in escrow for the youth is returned to the youth, along with interest accrued on the deposit. As of June 30, 2018, escrow accounts payable was \$6,798.

NOTE J - LINE OF CREDIT

Hoffman Homes, Inc. has a \$3,000,000 line of credit with PNC Bank, of which \$612,447 was outstanding as of June 30, 2018. The bank advances on the line of credit are due on demand and carry an interest rate of 30 Day LIBOR + 1.75%, which was 3.84% at June 30, 2018. The line of credit is secured by all assets of Hoffman Homes, Inc.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE K - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2018:

Term note payable to bank of \$992,586 payable in monthly principal installments of approximately \$20,000, plus interest at LIBOR plus 1.85% or 2.30% at June 30, 2018, due in March 2022, secured as outlined in the "Security" and "Pledge" agreements in the related debt documents.

Term note payable to bank of \$583,333 with maturity of August 2022 is payable in monthly principal installments of \$11,667 plus interest at LIBOR plus 2.25% through maturity of August 31, 2022, secured by all business assets.

Term note payable to bank of \$1,383 in monthly principal and interest payments of \$330, due in March 2022, secured by Ford F-250.

On August 9, 2017, Hoffman Homes, Inc. entered into a term loan in the amount of \$1,500,000, which was used to pay down their line of credit. The interest rate on the loan is LIBOR plus 1.75%. Interest only payments will be made monthly through August 31, 2019, on which date all outstanding principal and accrued interest shall be due and payable in full.

Total term debt outstanding	\$ 3,077,302
Less current portion	<u>(391,863)</u>
Long-term portion	<u>\$ 2,685,439</u>

Future maturities of long-term debt are as follows as of June 30, 2018:

2019	\$ 391,863
2020	1,900,525
2021	400,525
2022	361,055
2023	<u>23,334</u>
	<u>\$ 3,077,302</u>

Terms of the Organization's loan agreements provide for certain financial covenants. The Organization met these covenants for the year ending June 30, 2018.

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE L - CONTINGENT LIABILITIES

Hoffman Homes, Inc. participates in several grant programs with funding from federal and state sources. These programs are subject to compliance audits by the grantors or their representatives. The audits of some of these programs for and including the year ended June 30, 2018, have not yet been conducted. Accordingly, Hoffman Homes, Inc.'s compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time.

NOTE M - RETIREMENT PLANS

Tax Deferred Annuity Plan

Hoffman Homes, Inc. maintains a tax deferred annuity plan under Internal Revenue Code Section 403(b), covering eligible full-time employees.

Defined Benefit Plan

Hoffman Homes, Inc. has a defined benefit pension plan covering substantially all of its employees that were employed as of June 30, 2003. The benefits are based on years of service and the employee's compensation during the last year of employment. Hoffman Homes, Inc.'s funding policy is to contribute the minimum required deposit, as defined in Section 412 of the Internal Revenue Code, throughout the plan year which will keep the Plan from developing an accumulated funding deficiency.

Hoffman Homes, Inc. adopted a plan amendment which suspended all future benefit accruals in the defined benefit plan as of June 30, 2003. Hoffman Homes, Inc. established a defined contribution 403(b) plan for employee and employer contributions to be made after June 30, 2003.

Periodic benefit cost included in the Statement of Activities for 2018 include the following components:

Interest cost on the projected benefit obligation	\$ 281,869
Expected return on assets held in the plan	(394,488)
Recognized net actuarial loss	<u>119,428</u>
	<u>\$ 6,809</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - RETIREMENT PLANS - continued

Defined Benefit Plan - continued

Other disclosure information:

Measurement date	<u>June 30, 2018</u>
Projected benefit obligation	\$ 7,218,836
Accumulated benefit obligation	7,218,836
Fair value of plan assets	5,938,158
Funded status	(1,280,678)
Contributions	-
Benefits paid	299,226

Pension plan assets are carried at fair value based upon quoted market prices, a Level 1 fair value input and are made up of equity securities (\$1,526,107), mutual funds (\$4,287,350) and cash/money funds (\$124,701).

Allocation of plan assets at fair value:

Equity	26%
Fixed income	72%
Other	2%

Assumptions:

Weighted average discount rate	4.15%
Weighted average compensation increase	0.00%
Expected long-term rate of return on assets	7.00%

Contributions to the plan expected to be made during fiscal year ending June 30, 2019:

\$ -

Total expense for June 30, 2018 was \$87,398, comprised of \$6,809 of net periodic pension expense, \$17,275 for professional actuarial services, and \$63,314 for Pension Benefit Guaranty Corporation (PBGC) premiums.

Items not recognized as a component of net periodic pension cost:

Net gain	\$ 504,154
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Change in pension liability:

Net gain	\$ 391,535
Amortization of gain	<u>119,428</u>
	<u>\$ 510,963</u>

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE M - RETIREMENT PLANS - continued

Defined Benefit Plan - continued

Estimated future fiscal year benefit payments:

2019	\$ 304,485
2020	328,034
2021	348,094
2022	367,484
2023	375,653
2024 - 2028	2,102,038

Investment policies and strategies:

The investment policy for plans sponsored by Hoffman Homes, Inc. is based on ERISA standards for prudent investing. This policy seeks to maximize return while limiting risk, which is achieved through a balanced portfolio of equity and fixed income investments, as well as alternative asset classes. Within each asset class, a diversified mix of individual securities and bonds is selected. Equity allocations are targeted between 50% and 75% of the portfolio, with the remainder in fixed income investments and a small portion in alternative asset classes such as real estate. Asset manager performance is reviewed at least once every six months and benchmarked against the peer universe for the given investment style.

Determination of expected long-term rate of return on assets:

Hoffman Homes, Inc. has examined the historical benchmarks for returns in each asset class in its portfolio and, based on the target asset mix, has developed a weighted average expected return for the portfolio as a whole, taking into consideration forecasts of long-term expected inflation rates of 2.0% - 3.5%.

Demographic Assumptions

Measurement Date:	June 30
Mortality:	RP-2014 White Collar Mortality Table
Retirement Age:	Normal Retirement Age, or current age if later
Termination:	None assumed
Disability:	None assumed

HOFFMAN HOMES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE N - DERIVATIVE INSTRUMENTS

During the fiscal year ending June 30, 2012, Hoffman Homes, Inc. entered into a forward start interest rate swap to hedge the interest rate risk associated with a loan in the amount of \$2,350,000 at a fixed-rate. The loan was issued during the year ending June 30, 2012. The swap was effective on March 9, 2012 and terminates on March 9, 2022.

Hoffman Homes, Inc. is paying interest related to the swap agreement. The swap is issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to the fair value at the end of the year. The swap agreement had a fair value of \$9,830 at June 30, 2018. This amount is included in assets on the Statement of Financial Position and the change in fair value shown as an unrealized gain on the Statement of Activities, affecting the changes in unrestricted net assets.

The fair market value of Hoffman Homes, Inc.'s financial assets and liabilities is determined using forecasted levels of LIBOR and the notional value noted above and is considered a Level 2 input in accordance with Accounting Standards Codification 820, *Fair Value Measurements*. Level 2 inputs are based on quoted market prices for similar assets or liabilities within active markets. Management determined that the carrying value of the swap was materially consistent with the fair market value at June 30, 2018.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.