



HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020



**HABITAT FOR HUMANITY OF
THE LEHIGH VALLEY, INC.
JUNE 30, 2020**

<u>TABLE OF CONTENTS</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	8

Morey, Nee, Buck & Oswald, LLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of the Lehigh Valley, Inc.
Allentown, Pennsylvania

We have audited the accompanying financial statements of Habitat for Humanity of the Lehigh Valley, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 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 of 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 the Lehigh Valley, Inc. as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Morey, Nee, Buck & Oswald, LLC

Morey, Nee, Buck & Oswald, LLC
Spring House, Pennsylvania
October 22, 2020

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION
AS OF JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
<u>Assets:</u>		
Cash	\$ 854,068	\$ 797,891
Contributions receivable	60,108	7,984
Noninterest bearing mortgage loans, net of discount	3,272,418	2,994,207
Noninterest bearing mortgage loans, restricted under financing agreements, net of discounts	476,097	692,268
Other assets	19,215	15,451
Property held for resale	111,008	-
Construction work-in-progress	1,158,605	1,187,345
Property and equipment, net	<u>333,721</u>	<u>311,379</u>
 Total assets	 <u>\$ 6,285,240</u>	 <u>\$ 6,006,525</u>
 <u>Liabilities and net assets:</u>		
Accounts payable	\$ 37,550	\$ 27,382
Accrued expenses and other liabilities	43,754	29,908
Notes payable	<u>697,038</u>	<u>776,553</u>
 Total liabilities	 <u>778,342</u>	 <u>833,843</u>
 <u>Net assets</u>		
Net assets without donor restrictions	5,114,512	4,807,082
Net assets with donor restrictions	<u>392,386</u>	<u>365,600</u>
 Total net assets	 <u>5,506,898</u>	 <u>5,172,682</u>
 Total liabilities and net assets	 <u>\$ 6,285,240</u>	 <u>\$ 6,006,525</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

REVENUES AND OTHER SUPPORT	Without Donor Restrictions	With Donor Restrictions	2020 Totals	2019 Totals
Contributions:				
Cash	\$ 521,155	\$ 217,127	\$ 738,282	\$ 1,065,843
Conditional grant	187,352	-	187,352	-
Properties, services, and materials	<u>70,423</u>	<u>-</u>	<u>70,423</u>	<u>104,145</u>
	778,930	217,127	996,057	1,169,988
Sales to homeowners	426,708	-	426,708	489,951
ReStore sales	937,971	-	937,971	868,993
Mortgage loan discount amortization	184,228	-	184,228	160,578
Special event income	81,763	-	81,763	132,455
Interest income	6,211	-	6,211	4,973
Other income	14,989	-	14,989	4,279
Net assets released from restrictions	<u>190,341</u>	<u>(190,341)</u>	<u>-</u>	<u>-</u>
 Total revenues and other support	 <u>2,621,141</u>	 <u>26,786</u>	 <u>2,647,927</u>	 <u>2,831,217</u>
 EXPENSES AND LOSSES				
Program services:				
Construction	995,737	-	995,737	1,345,596
Family and volunteer services	111,389	-	111,389	110,832
Supporting services:				
ReStore	797,417	-	797,417	679,952
Management and general	124,939	-	124,939	151,768
Fund raising	<u>284,229</u>	<u>-</u>	<u>284,229</u>	<u>319,216</u>
 Total expenses	 <u>2,313,711</u>	 <u>-</u>	 <u>2,313,711</u>	 <u>2,607,364</u>
 Change in net assets	 307,430	 26,786	 334,216	 223,853
 Net assets at beginning of year	 <u>4,807,082</u>	 <u>365,600</u>	 <u>5,172,682</u>	 <u>4,948,829</u>
 Net assets at end of year	 <u>\$ 5,114,512</u>	 <u>\$ 392,386</u>	 <u>\$ 5,506,898</u>	 <u>\$ 5,172,682</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services		Supporting Services			2020 Totals	2019 Totals
	Construction	Family and Volunteer Services	ReStore	Management and General	Fund Raising		
Cost of homes sold	\$ 472,233	\$ -	\$ -	\$ -	\$ -	\$ 472,233	\$ 763,731
Committee	-	477	-	-	-	477	542
Depreciation and amortization	16,224	1,600	5,068	6,681	-	29,573	36,599
Insurance	21,063	447	5,027	3,739	-	30,276	27,793
Interest	7,842	892	-	1,055	-	9,789	7,680
Marketing and development	-	-	27,749	-	58,486	86,235	99,611
Mortgage discounts	178,235	-	-	-	-	178,235	234,131
Other	-	6,659	103,688	3,635	6,860	120,842	105,668
Other construction costs	19,064	-	-	-	-	19,064	19,765
NRI project costs	-	-	-	-	-	-	4,300
Professional services	-	6,743	3,843	27,004	-	37,590	33,357
Rent	-	-	174,223	-	-	174,223	163,718
Salaries and benefits	254,396	93,441	410,184	65,186	188,038	1,011,245	924,660
Special events	-	-	-	-	28,470	28,470	53,853
Supplies and repairs	-	310	30,015	13,632	2,375	46,332	60,129
Tithe donation to HFHI	5,000	-	-	-	-	5,000	5,000
SOSI Fee to HFHI	15,000	-	-	-	-	15,000	15,000
Utilities	6,680	820	37,620	4,007	-	49,127	51,827
TOTAL EXPENSES	\$ 995,737	\$ 111,389	\$ 797,417	\$ 124,939	\$ 284,229	\$ 2,313,711	\$ 2,607,364

The accompanying notes are an integral part of these audited financial statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 334,216	\$ 223,853
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	29,573	36,599
Mortgage loan discount amortization	(184,228)	(160,578)
Mortgage discount	178,235	234,131
Transfers to homeowners	(426,708)	(489,951)
Cost of homes sold	472,233	763,731
Donated properties, equipment and materials	(8,059)	(13,217)
(Increase) decrease in assets:		
Contributions receivable	(52,124)	34,319
Other assets	(3,764)	25,860
Increase (decrease) in liabilities:		
Accounts payable	10,168	(18,164)
Accrued expenses and other liabilities	<u>13,846</u>	<u>3,082</u>
Net cash provided (used) by operating activities	<u>363,388</u>	<u>639,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from noninterest bearing mortgage loans and other homeowner loans	333,609	279,792
Additions of property and equipment	(51,915)	(24,293)
Change in property held for resale	(55,055)	-
Reduction in property held for resale	-	107,776
Additions to construction work-in-progress	(435,434)	(844,606)
Closing costs paid	<u>(88,901)</u>	<u>(28,290)</u>
Net cash provided (used) by investing activities	<u>(227,696)</u>	<u>(509,621)</u>

The accompanying notes are an integral part of these audited financial statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	<u>(79,515)</u>	<u>(87,789)</u>
Net cash provided (used) by financing activities	<u>(75,515)</u>	<u>(87,789)</u>
Net increase (decrease) in cash	56,177	42,255
Cash, beginning of year	<u>797,891</u>	<u>755,636</u>
Cash, end of year	<u>\$ 854,068</u>	<u>\$ 797,891</u>
SUPPLEMENTAL		
Cash paid during the year for interest	<u>\$ 9,789</u>	<u>\$ 7,680</u>
Transfers to homeowner's subject to noninterest bearing mortgage loans	<u>\$ 445,609</u>	<u>\$ 518,240</u>

The accompanying notes are an integral part of these audited financial statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Habitat for Humanity of the Lehigh Valley, Inc. (the Organization) utilizes contributions, including grants, from individuals, religious organizations, corporations and government entities, and volunteers to engage in the construction, rehabilitation, and the sale of housing to economically disadvantaged people on a nonprofit and noninterest basis in the Lehigh Valley area of Pennsylvania.

Habitat for Humanity of the Lehigh Valley proposes to develop safe, decent and affordable housing for hardworking, low-income families, while helping to revitalize and stabilize neighborhoods in the Lehigh Valley. Through Habitat's broader community development strategy, the Neighborhood Revitalization Program proposes to identify opportunities to build new construction, rehabilitate and revitalize blighted properties for low-income home ownership. Through the Neighborhood Revitalization Program, resources are concentrated in target neighborhoods, so they can be transformed into vibrant, safe, and inviting places to live for both current and future residents. The Neighborhood Revitalization Program is reported as part of program services for construction.

Habitat operates the Habitat Lehigh Valley ReStore, (the ReStore), a retail operation where home furnishings, appliances, construction materials, and other miscellaneous items are donated and then sold to the community. Inventory is not reflected in the financial statements because the value is unknown at the time of donation.

The ReStore is operated with the purpose of generating funds to support the Organization's homebuilding and neighborhood revitalization programs. The ReStore is reported as a supporting service activity.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2020, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers: Topic 606. This update requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The Organization adapted the provisions of this guidance on July 1, 2019. The Organization has not identified any material changes to the timing or amount of its revenue recognition under ASU 2014-09. The Organization's accounting policies did not change materially as a result of applying the principles of revenue recognition from ASU 2014-09 and are largely consistent with existing guidance and current practices applied by the Organization. As a result, prior periods have not been adjusted and, based on our implementation assessment, no retrospective or cumulative-effect adjustment was required to net assets.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), 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 two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at the Board and management's discretion; and net assets with donor restrictions, which represents resources restricted by donors as to purpose or by the passage of time.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Contributions and Contributions Receivable

Contributions, which include certain grant revenue, are recorded as revenue in the period received. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction expires net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions receivable includes grant money earned in the current period, but not received as of June 30, 2020. All contributions receivable are due within one year.

Contributed Materials and Services

The Organization records various types of in-kind contributions for use in its programs, fundraising and administration. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals utilizing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment. In-kind contributions totaled \$70,423 for the year ended June 30, 2020. Contributions of items to be sold by the ReStore are not recognized as revenue until the items are sold.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Property and Equipment

The Organization capitalizes assets purchased or donated if they have a useful life greater than one year and a value greater than or equal to \$5,000. Purchased property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Donated property and equipment are recorded at fair value as of the date of the gift.

Property Held for Resale

Property held for resale consists of properties that the Organization has repurchased from former homeowners. The properties are recorded at the lesser of reacquisition cost or fair value. Reacquisition costs include the previously recorded mortgage loan, net of unamortized discount as well as any cash used to repurchase and rehabilitate the property.

Marketing and Development

All marketing and development costs are expensed when incurred and are presented in the statement of activities as a component of expenses. During the year, the Organization incurred marketing and development expenses of \$ 86,235.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Noninterest Bearing Mortgages

The Organization holds mortgages on rehabilitated and newly constructed properties which are noninterest bearing. The home is collateral for each mortgage. Noninterest bearing mortgages are stated at unpaid principal balances, net of discount.

Noninterest bearing mortgages have been discounted at various rates based upon prevailing market rates at the inception of the mortgages. The recorded mortgage discounts reflect the imputed interest portion of the noninterest bearing mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. Because the unearned discounts on the loans are only amortized as each payment is received from the homeowners, the mortgages are not required to be placed in nonaccrual status.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Noninterest Bearing Mortgages, continued

Management analyzes any borrower's failure to meet repayment terms, borrower's deteriorating financial condition or depreciation of the underlying collateral to consider any impairment of the mortgage and any allowance for loan loss necessary. Past due status is determined based on contractual terms. Management's analysis indicates that no provision for loan losses is required because the Organization is a secured creditor and the fair market value of the homes is in excess of the related mortgage note balances net of discount.

Homeowners also pay a monthly escrow amount from which the Organization's third-party servicer pays property taxes and insurance.

Restricted Noninterest Bearing Mortgages

The Organization has pledged fourteen of its noninterest bearing mortgages to the Pennsylvania Housing Financing Agency (PHFA) under financing agreements accounted for as secured borrowings. The Organization has also pledged two additional noninterest bearing mortgages with Bethlehem Housing Authority (BHA). The mortgages pledged are collateral for notes payable. In the event of a default by a mortgagee, the Organization is required to pay to the lender an amount equal to the outstanding principal of the defaulted mortgage plus costs and fees or substitute another similar mortgage.

The Organization is required to continue servicing the mortgage loans that serve as collateral for the note payable.

Second Mortgages Receivable

In order to protect against the resale of a Habitat for Humanity home by the homeowner for a windfall profit, the Organization holds a second mortgage on any Habitat home that is conveyed to the Habitat homeowner at a value less than fair market value ("FMV"). The amount of each second mortgage is equal to the differential between FMV and the sale price. The specific terms of these second mortgages may vary, but as a general matter, these second mortgages are forgiven over a period of time equal to the term of the first mortgage. Provided the homeowner makes timely payments on the first mortgage, the second mortgage is forgiven proportionally to the settlement of the first mortgage. No payments are made on these second mortgages unless a house is resold during the term of the first mortgage, in which case the Organization will recover the remaining balance of both the first and second mortgages from the sale proceeds. Each second mortgage prohibits its subordination to any third-party liens entered into subsequent to the execution of the first mortgage. As the Organization does not generally anticipate that these second mortgages will be paid by the homeowners, they are not recorded as assets on the Statement of Financial Position.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Program Services

Program services include the cost of homes sold and the discount on mortgage originations. The cost of home building is capitalized to construction work in progress as incurred. Upon completion of construction and the transfer of the home to the new homeowner, the cost of construction is expensed as cost of homes sold.

Transfers to Homeowners

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken. Management has performed their evaluation and believes there are no unrecognized tax positions that are required to be disclosed.

The Organization's policy is to classify income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

Note 2 - Cash

Cash as of June 30, 2020 consists of the following:

Without donor restrictions	\$ 461,682
With donor restrictions	<u>392,386</u>
	<u>\$ 854,068</u>

Note 3 - Noninterest Bearing Mortgages

Noninterest bearing mortgages as of June 30, 2020 consist of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Principal	\$ 5,032,017	\$ 687,332	\$ 5,719,349
Mortgage discount	<u>(1,759,599)</u>	<u>(211,235)</u>	<u>(1,970,834)</u>
	<u>\$ 3,272,418</u>	<u>\$ 476,097</u>	<u>\$ 3,748,515</u>

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 - Noninterest Bearing Mortgages, continued

The following schedule summarizes the payment status of the noninterest bearing mortgages as of June 30, 2020.

	<u>Number of Loans</u>	<u>Loan Principal Balance</u>	
Current	75	\$ 5,518,791	96.5%
30 to 59 days past due	2	69,479	1.2
60 to 89 days past due	<u>2</u>	<u>131,079</u>	<u>2.3</u>
	<u>79</u>	<u>\$ 5,719,349</u>	<u>100.0%</u>

Note 4 - Property and Equipment

Property and equipment as of June 30, 2020 consists of the following:

Land	\$ 25,000
Building	456,957
Leasehold improvements	37,690
Equipment and furniture	51,242
Vehicles	<u>157,016</u>
	727,905
Less accumulated depreciation	<u>394,184</u>
	<u>\$ 333,721</u>

Depreciation expense for the year ended June 30, 2020 was \$ 29,573.

Note 5 - Notes Payable

The Organization's notes payable as of June 30, 2020 consists of the following:

Note payable, Pennsylvania Housing Finance Agency (PHFA), due August 2033, payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest. \$ 77,011

Note payable, Pennsylvania Housing Finance Agency (PHFA), due November 2037, payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest. 308,450

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 5 - Notes Payable, continued

Note payable, Pennsylvania Housing Finance Agency (PHFA), due June 2038, payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	111,457
Note payable, Bethlehem Housing Authority, due April 2022, payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	14,343
Note payable, Bethlehem Housing Authority, due April 2023, payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	22,199
Note Payable, Fulton Bank, payable in monthly installments of \$1,346, due April 2034, with a fixed rate of 4.5% through May 2024, collateralized by real estate.	<u>163,578</u>
	<u>\$ 697,038</u>

The agreements with PHFA state that the loans shall be repaid in accordance with the TANF (the federal Temporary Assistance for Needy Families) Zero Mortgage Loan Program Note. Under the current agreement, if not sooner paid, any amounts which remain outstanding under the loan shall be due and payable upon 30 years from the date of the loan closing. Accordingly, each PHFA loan reflects a maturity date of 30 years from the date of the loan closing.

The future maturities of the notes payable as of June 30, 2020 are as follows:

<u>Year ending June 30:</u>	
2021	\$ 64,339
2022	61,452
2023	52,343
2024	46,612
2025	43,724
Thereafter	<u>428,568</u>
	<u>\$ 697,038</u>

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 5 - Notes Payable, continued

Financing Agreement

In 2014 the Organization entered into a financing agreement with Lafayette Ambassador Bank, now Fulton Bank, in order to pay off an existing Lafayette Bank Site Development Loan on the completed Minsi Ridge property, and to make capital improvements to the office property located at N. Graham Street, Allentown, Pennsylvania.

The agreement included a \$210,000 mortgage which satisfied the outstanding site-development line of credit and provided an additional \$75,000 for capital improvements. As of June 30, 2020 these funds have been expended for improvements.

In addition, the Organization secured a revolving line of credit of \$250,000, with a floating Wall Street Journal Prime Rate minus 0.25% with a floor rate of not less than 3.00%. The line is available to the Organization for short term cash needs related to construction and renews automatically each year.

The property located at 245 N Graham Street, Allentown, PA serves as collateral for the line of credit. The Organization did not use the line of credit during the year and the balance at June 30, 2020 was \$0.

Standby Letters of Credit

Fulton Bank (The Lender) has issued an irrevocable standby letter of credit to the City of Bethlehem to ensure completion and maintenance of improvements to be made at the Keystone Avenue Subdivision project. The letter of credit, guaranteed by the existing revolving line of credit, was issued October 10, 2017 in the amount of \$82,740 for a term of one year, renewed automatically each year without an amendment to guaranty site improvements.

In May 2020, the Lender reduced the letter of credit to \$5,320 to reflect the work completed by the developer as verified by the City of Bethlehem.

Fulton Bank issued an irrevocable standby letter of credit to the City of Allentown to secure completion of improvements to be made at the Tacoma Street project. The letter of credit, guaranteed by the existing revolving line of credit, was issued September 25, 2019 in the amount of \$97,880 for a term of one year, renewed automatically each year without an amendment to guaranty site improvements.

Note 6 - Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2020:

New construction and rehabilitation of homes	\$ 296,106
Operations and program delivery	<u>96,280</u>
	<u>\$ 392,386</u>

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 7 – Net Assets With Donor Restrictions Released

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors. During the year end June 30, 2020, net assets with donor restrictions were released as follows:

New construction and rehabilitation of homes	\$ 155,160
Other costs	35,051
Scholarship and Education Funds	<u>130</u>
	<u>\$ 190,341</u>

Note 8 - Retirement Plan

The Organization has a SIMPLE IRA retirement plan in which all employees are eligible. Each calendar year, the Organization makes a matching contribution equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation. The Organization contributed \$10,031 for the year ended June 30, 2020.

Note 9 - Transactions with Habitat for Humanity International, Inc.

The Organization is an affiliate of Habitat for Humanity International, Inc (HFHI); and annually remits a portion of its contributions (excluding in-kind contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. During the year ended June 30, 2020, the Organization remitted a tithe of \$5,000.

HFHI has mandated a Stewardship and Organizational Sustainability Initiative (SOSI) Fee. This mandatory fee is based on service area population and is intended to have affiliates contribute to HFHI costs to serve United States affiliates. For the year ended June 30, 2020, the Organization paid a \$15,000 SOSI Fee.

Note 10 - Operating Lease

The Organization leases the building that houses its ReStore retail store. The terms of the lease call for monthly payments over the initial lease term of seven years through December 2019. On October 15, 2019 the Organization extended the lease for the ReStore retail store for a period of five years, under the First Renewal Term of the original lease, beginning January 1, 2020 and terminating on December 31, 2024. The future minimum lease payments on the lease are as follows:

<u>Year ending June 30:</u>	
2021	\$ 167,065
2022	170,406
2023	173,814
2024	177,291
2025	89,523
Thereafter	<u>-</u>
	<u>\$ 778,099</u>

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 10 - Operating Lease , continued

On March 12, 2020 the Organization entered into a three-year lease for warehouse space for ReStore inventory. The terms of the lease call for monthly payments over the initial term through March 31, 2023. There are two renewal periods for three-year terms.

The future minimum lease payments on the lease are as follows:

<u>Year ending June 30:</u>	
2021	\$ 44,786
2022	46,254
2023	35,465
Thereafter	<u>-</u>
	<u>\$ 126,505</u>

Note 11 - Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. These expenses include salaries, insurance, utilities, office supplies and fundraising; Payroll costs are allocated based on time studies of employees; expenses incurred to carry out the mission are allocated 100% to program; depreciation expense is allocated based on square footage usage in the building; other expenses are allocated based on actual or estimated usage.

Note 12 - Conditional Grant - Payroll Protection Program

In April of 2020, the Organization received a Paycheck Protection Program (PPP) loan under the CARES Act (the Act) through First Commonwealth Federal Credit Union, in the amount of \$187,352. The Paycheck Protection Program is a loan designed to provide a direct incentive for organizations to keep their employees on payroll during the pandemic crisis.

The Small Business Administration (SBA) will forgive the entire loan if the Organization meets the spending and employee retention requirements of the Act. In part to meet the requirements, the Organization needs to maintain its full-time equivalent employees (FTE) and use the proceeds of the loan for payroll expenses (including some benefits), rent expense, or utilities.

As of June 30, 2020, the Organization met the requirements for the loan to be forgiven and applied for loan forgiveness. First Commonwealth Federal Credit Union approved the loan forgiveness application and submitted the application to the SBA for final approval. In anticipation of full forgiveness, in accordance with FASB ASC 958-605, the proceeds have been recorded as a conditional grant in the statement of activities.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 13 - Liquidity and Availability

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	\$ 854,068
Contributions receivable	60,108
Noninterest bearing mortgage loans	<u>3,272,418</u>
Total Financial Assets	4,186,594
Less:	
Noninterest bearing mortgage loans beyond one year	(3,043,918)
Net assets with donor restrictions unavailable for general expenses	<u>(296,106)</u>
Total Financial Assets available within one year	<u>\$ 846,570</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as it's general expenditures, liabilities and other obligations come due.

The Organization's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts from revenue items.

The cash balance includes \$296,106 in funds that are with donor restrictions for costs of projects underway and expected to begin in the coming year. Additionally, cash includes management reserves of \$20,000 for the replacement of heating units at the office location and \$3,317 for future payments on loans associated with mortgage loans restricted under financing agreements. These funds can be available if needed for general expenditures.

Note 14 - Subsequent Events

Management has evaluated subsequent events and transactions for potential recognition or disclosure through October 22, 2020, which is the date on which the financial statements were available to be issued.

The Covid-19 outbreak in the United States and world-wide has caused business disruption through mandated and voluntary closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact and duration cannot be reasonably estimated at this time.