HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

FINANCIAL REPORT

June 30, 2010

BUCKNO LISICKY & COMPANY

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A Professional Corporation

Certified Public Accountants | Business Consultants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Habitat for Humanity of the Lehigh Valley, Inc. as of June 30, 2010 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010 and its changes in net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Buckno Lisicky + Company

Allentown, Pennsylvania
March 14, 2011

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2010

ASSETS

Cash and cash equivalents	$ 1,413,836
Contributions receivable	228,563
Noninterest bearing mortgage loans, net of discount	1,358,564
Noninterest bearing mortgage loans, restricted under financing agreements, net of discount	1,399,673
Split interest agreements	10,600
Other assets	47,621
Property and equipment, net	398,283
Construction work-in-progress	1,757,068
Total assets	$ 6,614,208

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	$ 34,574
Notes payable	1,389,254
Payable from escrow funds	142,648
Other liabilities	924
Total liabilities	1,567,400
NET ASSETS	
Unrestricted	4,932,355
Temporarily restricted	114,453
Total net assets	5,046,808
Total liabilities and net assets	$ 6,614,208

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Totals
REVENUES AND OTHER SUPPORT			
Contributions:			
Cash	$ 872,673	$ 255,490	$ 1,128,163
Properties, services and materials	181,825	-	181,825
	1,054,498	255,490	1,309,988
Transfers to homeowners	1,122,756	-	1,122,756
Mortgage loan discount amortization	117,800	-	117,800
Interest income	10,557	-	10,557
Change in value of split interest agreements	(48)	-	(48)
Special event income	47,533	-	47,533
Other income	4,004	-	4,004
Gain on sale of properties	6,084		6,084
Net assets released from restrictions	282,881	(282,881)	-
Totals revenue and other support	2,646,065	(27,391)	2,618,674
EXPENSES			
Program services:			
Construction	2,161,043	-	2,161,043
Family and volunteer services	74,041	-	74,041
Supporting services:			
Fund raising	134,784	-	134,784
Management and general	131,561	-	131,561
Total expenses	2,501,429	-	2,501,429
Change in net assets	144,636	(27,391)	117,245
Net assets, June 30, 2009	4,787,719	141,844	4,929,563
Net assets, June 30, 2010	$ 4,932,355	$ 114,453	$ 5,046,808

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2010

	Program Services		Supporting Services		
	Construction	Family and Volunteer Services	Fund Raising	Management and General	Total
Amortization	$ -	$ -	$ -	$ 3,292	$ 3,292
Bad debts	-	-	-	35,950	35,950
Cost of homes sold	1,448,262	-	-	-	1,448,262
Committee expenses	362	2,842	8,511	-	11,715
Depreciation	21,437	1,171	-	3,029	25,637
Insurance	17,786	556	-	4,193	22,535
Interest expense	10,664	919	-	1,087	12,670
Mortgage discounts	485,818	-	-	-	485,818
Other	-	-	38,571	7,704	46,275
Other construction costs	21,224	-	-	-	21,224
Professional services	-	3,507	-	9,193	12,700
Salaries and benefits	112,914	64,125	72,356	50,102	299,497
Special events expense	-	-	13,922	-	13,922
Supplies and repairs	16,070	176	1,424	11,803	29,473
Tithe donation to Habitat for Humanity International, Inc.	20,000	-	-	-	20,000
Utilities	6,506	745	-	5,208	12,459
	$ 2,161,043	$ 74,041	$ 134,784	$ 131,561	$ 2,501,429

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 117,245
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Bad debts	35,950
Depreciation	25,637
Amortization	3,292
Mortgage loan discount amortization	(117,800)
Mortgage discount	485,818
Transfers to homeowners	(1,122,756)
Cost of homes sold	1,448,262
Gain of sale of property	(6,084)
Donated properties and materials	(181,825)
(Increase) decrease in assets:	
Contributions receivable	3,062
Split interest agreements	48
Other assets	(21,767)
Increase in liabilities:	
Accounts payable	22,436
Payable from escrow funds	11,356
Net cash provided by operating activities	702,874
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from noninterest bearing mortgage loans	200,851
Additions to construction work-in-progress	(762,662)
Proceeds from sale of property	57,561
Closing costs paid	(60,124)
Net cash used in investing activities	(564,374)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds from line of credit	(9,783)
Proceeds from notes payable	39,600
Payments on notes payable	(91,380)
Net cash used in financing activities	(61,563)
Net increase in cash and cash equivalents	76,937

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF THE LEHIGH VALLEY, INC.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2010

CASH AND CASH EQUIVALENTS:	
Beginning	1,336,899
Ending	$ 1,413,836
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for:	
Interest	$ 12,670
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Transfers to homeowners subject to noninterest bearing mortgage loans	$ 1,122,756

See Notes to Financial Statements.

Note 1. Organization and Purpose

Habitat for Humanity of the Lehigh Valley, Inc. (Habitat) utilizes contributions, including grants, from individuals and organizations 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.

A Board of Directors appoints committees to select sites and families, plan construction, organize volunteer labor, and provide volunteer services, enabling houses to be constructed or refurbished at a cost substantially less than market value.

The Organization's activities are funded primarily by contributions, including grants, from individuals, religious organizations, corporations, and governmental entities.

The Organization is an affiliate of Habitat for Humanity International, Inc. It is expected, but not required, that 10% of undesignated cash donations received will be forwarded as a tithe to the international organization.

Note 2. Summary of Significant Accounting Policies

The financial statements are prepared on the accrual basis of accounting. The significant accounting policies followed are described below:

Date of management's review:

The Organization has evaluated subsequent events through March 14, 2011, the date which the financial statements were available to be issued.

Basis of presentation:

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in FASB ASC 958-205. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Cash and cash equivalents:

Cash and cash equivalents, for the purposes of the statement of cash flows, includes all highly liquid financial instruments that have a maturity when purchased of three months or less.

Contributions and promises to give:

Contributions, which include certain grant revenue, are recorded as revenue at their fair value in the period received. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports that support as unrestricted.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Noninterest bearing mortgages:

Habitat holds mortgages on rehabilitated properties which are noninterest bearing. The home is collateral for each mortgage.

Noninterest bearing mortgages are stated at unpaid principal balances, net of discount. 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.

Noninterest bearing mortgages have been discounted at various rates based upon prevailing market rates at the inception of the mortgages reflecting the interest portion of the noninterest bearing mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages.

Habitat homeowners also pay a monthly escrow amount from which the Organization pays property taxes and insurance.

Restricted noninterest bearing mortgages:

The Organization has transferred a portion of its noninterest bearing mortgages to the Pennsylvania Housing Financing Agency (PHFA) and other organizations under financing agreements accounted for as secured borrowings. The mortgages transferred are collateral for note payables. The proceeds from the transfer of the mortgages are required to be used to originate zero interest mortgages for low income families for homes constructed by Habitat. In the event of a default by a mortgagee, Habitat is required to pay to the lender an amount equal to the principal and interest

outstanding of the defaulted mortgage plus costs and fees or substitute another similar mortgage.

Habitat 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 Habitat for Humanity homes for a windfall profit, the Organization holds a second mortgage on every Habitat home. As long as the homeowner renders timely payment on the first mortgage, the Organization will forgive a portion of the outstanding principal balance of the second mortgage over the course of the first mortgage term. For mortgage loans made prior to January 1, 1999, the forgiveness of the second mortgage began with the first payment on the mortgage and occurs ratably over the course of the first mortgage term. For mortgage loans made after January 1, 1999, the forgiveness of the second mortgage does not begin until the fifth anniversary of the issuance of the first mortgage loan. Upon the fifth anniversary of the first mortgage loan, an amount equal to the total payments previously made on the first mortgage is forgiven on the second mortgage loan. Subsequent to the fifth anniversary of the first mortgage loan, each payment made on the first mortgage loan results in an equal amount being forgiven on the second mortgage loan. No payments are made on these second mortgages unless a house is resold; in which case, the Organization holds the right of first refusal. The policy also prohibits the subordination of the second mortgages to any outside liens entered into subsequent to the settlement date. As gain contingencies not likely to be realized, these second mortgages are not recorded as assets on the Statement of Financial Position.

Split interest agreements:

Split interest agreements are valued at fair value, which represents the fair value of the underlying investments less the estimated actuarial liability necessary to meet the future payments to beneficiaries based upon their life expectancies.

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 $1,000. 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 to facilitate the sale of such properties on the open market. The properties are recorded at the lesser of acquisition cost or fair value. Acquisition costs include the previously recorded mortgage loan, net of unamortized discount as well as any cash used to repurchase and rehabilitate the property.

Program services:

Program services include 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 the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Organization continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings in determining any uncertain tax positions.

The Organization files a Return of Organization Exempt from Income Tax annually. The Organization's returns for 2007, 2008, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Note 3. Contributions Receivable

Contributions receivable as of June 30, 2010 consist of the following:

Amounts due within:	
One year	$ 120,792
One year to five years	107,771
	$ 228,563

Note 4. Split Interest Agreement

The Organization is the beneficiary under a charitable gift annuities administered by other parties. The split interest agreements represent the fair value of assets held by the Organization as gifts from which a lifetime annuity is paid to the donor. Upon termination of the annuity obligation, the principal becomes available for the Organization's use in accordance with donor restrictions, or if no restrictions are imposed by the donor, for the Organization's unrestricted use.

The difference between the fair value of the assets received and the liability to the donor or other beneficiaries is recognized as contribution revenue. The Organization did not recognize any contributions under split interest agreements for the year ended June 30,

2010. The change in value of existing split interest agreements was a decrease of $48 for the year ended June 30, 2010.

Note 5. Noninterest Bearing Mortgages

Noninterest bearing mortgages as of June 30, 2010 consist of the following:

	Unrestricted	Restricted
Principal	$ 2,273,550	$ 2,238,149
Mortgage discount	(914,986)	(838,476)
	$ 1,358,564	$ 1,399,673

Note 6. Property and Equipment

Property and equipment as of June 30, 2010 consists of the following:

Vehicles	$ 81,899
Equipment and furniture	27,554
Building	425,682
	535,135
Less accumulated depreciation	136,852
	$ 398,283

Note 7. Notes Payable

The Organization's notes payable as of June 30, 2010 consists of the following:

Note payable, Pennsylvania Housing Finance Agency (PHFA) payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	$ 193,332
Note payable, Pennsylvania Housing Finance Agency (PHFA) payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	499,715
Note payable, Pennsylvania Housing Finance Agency (PHFA) payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	300,644

Note payable, Bethlehem Housing Authority payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	18,427
Note payable, Habitat for Humanity International, payable in monthly payments of $3,722 including interest at 4.0% through December 2014. Secured by mortgage loan receivables.	183,212
Note payable, Bethlehem Housing Authority payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	33,000
Note payable, Bethlehem Housing Authority payable in quarterly installments equal to the monthly mortgage payments received on mortgage loans which collateralize the note, at 0% interest.	33,000
Line of credit, Lafayette Ambassador Bank, total credit available $202,884, payable on demand, interest at a variable rate (3.00% at June 30, 2010), collateralized by real estate.	127,924
	$ 1,389,254

The future maturities of the note payable as of June 30, 2010 are as follows:

Year ending June 30	
2011	$ 230,085
2012	103,710
2013	98,063
2014	98,438
2015	77,137
Thereafter	781,821
	$ 1,389,254

Development Loan Agreement

Habitat has entered into a development loan agreement with a local bank to fund site improvements costs on a project in the City of Bethlehem. The agreement includes two remaining credit facilities.

Site Development Line of Credit Loan

The development loan in the amount of $948,768 is used to back the issuance of the letter of credit and fund the site improvement costs of the project. The development loan has a term of five years with interest payable at the Bank's prime rate less 1% per annum payable monthly. Principal on the loan is payable in five annual installments of $162,837 based upon the estimated loan advances with any remaining principal amounts payable on December 31, 2012. The loan is secured by a first lien on certain lots in the project development and all improvements, fixtures, machinery, equipment and supplies incidental thereof and is cross collateralized by assignment of present and future agreements of sale of the properties and any future rents and leases. The balance on the line of credit as of June 30, 2010 is $127,924.

Stand-by Irrevocable Letters of Credit

The Lender has issued to the City of Bethlehem a reducing irrevocable stand-by letters of credit to ensure completion and maintenance of the improvements with the project. The letter of credit is in the amount of $417,532 for a term of one year renewable annually to guaranty 110% of the cost of completing the site improvements plus 5% construction inspection and 5% city inspection fees. The letter of credit is incorporated with the above development loan amount and secured under the loan documents.

Federal Home Loan Bank Affordable Housing Program (AHP) Grant

Habitat was awarded a Federal Home Loan Bank AHP Grant in the amount of $500,000 to assist in funding the above project. Pursuant to FHLB funding guidelines, an AHP mortgage and 0% interest note secures the funding under the grant. As individual home packages are conveyed to low and moderate income homeowners, the $500,000 line is released and replaced with a mortgage against the homeowner's property in the amount of $18,519 (representing $500,000 divided by 27 lots) for a period of five years from the date of the homeowner's closing, reduced every year the mortgagor/purchaser owns the property.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets, which represents cash restricted by donor stipulations, is available for the following purposes as of June 30, 2010:

Construction / rehabilitation of homes in designated areas	$ 103,853
Split interest agreements	10,600
	$ 114,453

Note 9. Retirement Plan

Habitat has a SIMPLE IRA retirement plan covering all employees whose compensation is at least $5,000 and who have earned at least $5,000 in two preceding calendar years. For each calendar year, Habitat makes a matching contribution equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation. Habitat contributed $3,842 for the year ended June 30, 2010 in addition to the elective deferrals made by the employees.

Note 10. Transactions with Habitat for Humanity International, Inc.

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2010, Habitat made $20,000 in contributions to Habitat International.

Note 11. Concentration of Credit Risk

Financial instruments which subject Habitat to concentration of credit risk include cash on deposit in bank and mortgages receivable. At times, cash balances in the bank have been in excess of federally insured limits. As of June 30, 2010, the Organization estimates that $68,760 of its cash balances are in excess of federally insured limits. Habitat has not incurred any losses as a result of these uninsured cash deposits.

As part of its operations, Habitat holds mortgages on the residential properties, which the Organization constructs. These mortgages are held on properties in eastern Pennsylvania.

Note 12. Functional Allocation of Expenses

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

Note 13. Fair Value Measurements

FASB 820-10-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

The fair values of assets and liabilities measured on a recurring basis as of June 30, 2010 are as follows:

	Total	Level 3
Split interest agreements	$ 10,600	$ 10,600

The detail of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

Year Ended June 30, 2010	Split Interest Agreements
Beginning balance	$ 10,648
Change in fair value	(48)
Ending balance	$ 10,600

Note 14. Litigation

The Organization is a defendant in a lawsuit with a contractor of one of its construction projects. The complaint alleges breach of contract on the part of Habitat for failure to pay under the terms of the construction contract and seeks payment for services rendered, including revocation of amounts previously designated as donations of approximately $269,000. Habitat believes the contractor failed to satisfactorily perform under the construction contract. The parties have had settlement discussions. The lawsuit is scheduled for trial in the summer of 2011. The ultimate outcome of the lawsuit can not be determined at this time.