

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**
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For the Years Ended June 30, 2025 and 2024

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HAMILTON & MUSSER, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lancaster Area Habitat for Humanity, Inc. dba
Lancaster Lebanon Habitat for Humanity and Affiliate
Lancaster, Pennsylvania

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate as of June 30, 2025 and 2024, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

Prior Period Restatement

As described in Note 20, during the year ending June 30, 2025 management determined that 2024 net assets with donor restrictions were overstated and net assets without donor restrictions were understated by \$162,500. Accordingly, the amounts reported for net assets with and without donor restrictions have been restated in the 2024 financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

December 15, 2025

Mechanicsburg, Pennsylvania



Certified Public Accountants

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statements of Financial Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and Cash Equivalents – Operating (Note 2)	\$ 1,841,444	\$ 1,594,662
Promises to Give, Net (Note 4)	180,364	423,775
Grant Receivable	162,500	162,500
Non-Interest-Bearing Mortgages Receivable, Net of Unamortized Discount of \$3,002,753 and \$2,478,648 (Note 10)	2,211,261	1,953,580
Security Deposits	31,521	6,250
Prepaid Expenses	34,777	49,094
Inventory (Note 5)	244,011	564,016
Cash and Cash Equivalents Restricted for Escrows (Note 2)	127,496	116,448
Real Estate and Construction in Progress (Note 6)	2,765,403	2,697,757
Beneficial Interest in Assets Held by a Community Foundation (Note 7)	849,160	801,343
Right-of-Use Assets, Net (Note 8)	7,240,092	7,439,619
Fixed Assets, Net (Note 9)	<u>360,045</u>	<u>391,957</u>
Total Assets	<u>\$ 16,048,074</u>	<u>\$ 16,201,001</u>
Liabilities		
Accounts Payable	\$ 280,430	\$ 160,560
Accrued Payroll and Benefits	59,757	58,819
Other Accrued Expenses	11,091	8,081
Escrows Payable	127,496	116,448
Deferred Revenue	-	76,687
Lease Liabilities, Net (Note 8)	7,274,561	7,439,619
Notes Payable (Note 12)	637,780	693,374
Secured Borrowings, Net (Note 13)	<u>482,041</u>	<u>568,376</u>
Total Liabilities	<u>8,873,156</u>	<u>9,121,964</u>
Net Assets		
Without Donor Restrictions		
Undesignated	5,895,394	4,802,694
Board Designated (Note 15)	1,081,653	1,035,392
With Donor Restrictions (Note 16)	<u>197,871</u>	<u>1,240,951</u>
Total Net Assets	<u>7,174,918</u>	<u>7,079,037</u>
Total Liabilities and Net Assets	<u>\$ 16,048,074</u>	<u>\$ 16,201,001</u>

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statement of Activities
For the Year Ended June 30, 2025

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions – Public	\$ 1,680,685	\$ -	\$ 1,680,685
Contributions – Building Campaign	-	456,269	456,269
Nonfinancial Contributions (Note 14)	1,968,199	-	1,968,199
ReStore Sales	1,979,197	-	1,979,197
Interest Income	37,710	-	37,710
Transfers to Homeowners	1,142,000	-	1,142,000
Mortgage Loan Discount Amortization	185,984	-	185,984
Miscellaneous Income	7,590	-	7,590
Change in Value of Beneficial Interest in Assets Held by a Community Foundation (Note 7)	46,261	1,556	47,817
Net Assets Released from Restrictions	<u>1,500,905</u>	<u>(1,500,905)</u>	<u>-</u>
Total Support and Revenue	<u>8,548,531</u>	<u>(1,043,080)</u>	<u>7,505,451</u>
Expenses			
Program Services			
Affordable Housing	3,231,363	-	3,231,363
ReStore	3,530,015	-	3,530,015
Supporting Services			
Management and General	395,320	-	395,320
Fundraising	<u>252,872</u>	<u>-</u>	<u>252,872</u>
Total Expenses	<u>7,409,570</u>	<u>-</u>	<u>7,409,570</u>
Change in Net Assets	1,138,961	(1,043,080)	95,881
Net Assets, Beginning of Year	<u>5,838,086</u>	<u>1,240,951</u>	<u>7,079,037</u>
Net Assets, End of Year	<u>\$ 6,977,047</u>	<u>\$ 197,871</u>	<u>\$ 7,174,918</u>

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statement of Activities
For the Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions – Public	\$ 1,202,803	\$ -	\$ 1,202,803
Contributions – Building Campaign	-	1,725,569	1,725,569
Nonfinancial Contributions (Note 14)	1,510,602	-	1,510,602
ReStore Sales	1,495,581	-	1,495,581
Interest Income	25,296	-	25,296
Transfers to Homeowners	606,000	-	606,000
Mortgage Loan Discount Amortization	250,029	-	250,029
Miscellaneous Income	14,129	-	14,129
Change in Value of Beneficial Interest in Assets Held by a Community Foundation (Note 7)	51,268	1,700	52,968
Net Assets Released from Restrictions	<u>1,372,771</u>	<u>(1,372,771)</u>	<u>-</u>
Total Support and Revenue	<u>6,528,479</u>	<u>354,498</u>	<u>6,882,977</u>
Expenses			
Program Services			
Affordable Housing	1,940,992	-	1,940,992
ReStore	2,598,353	-	2,598,353
Supporting Services			
Management and General	324,835	-	324,835
Fundraising	<u>216,455</u>	<u>-</u>	<u>216,455</u>
Total Expenses	<u>5,080,635</u>	<u>-</u>	<u>5,080,635</u>
Change in Net Assets	1,447,844	354,498	1,802,342
Net Assets, Beginning of Year	<u>4,390,242</u>	<u>886,453</u>	<u>5,276,695</u>
Net Assets, End of Year	<u>\$ 5,838,086</u>	<u>\$ 1,240,951</u>	<u>\$ 7,079,037</u>

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2025

	Program Services		Supporting Services		Total
	Affordable Housing	ReStore	Management and General	Fundraising	
Advertising	\$ 3,404	\$ 6,352	\$ -	\$ 751	\$ 10,507
Bad Debt Expense	1,425	-	-	-	1,425
Bank Fees	885	42,141	4,542	-	47,568
Building Campaign	12,244	-	-	-	12,244
Construction/Renovation Costs	3,787	-	-	-	3,787
Cost of Goods Sold – ReStore	-	2,090,863	-	-	2,090,863
Cost of Homes Transferred	1,976,132	-	-	-	1,976,132
Depreciation	8,813	58,609	2,938	2,938	73,298
Dues and Subscriptions	2,969	-	88,741	966	92,676
Employee Benefits	48,696	77,650	39,907	23,643	189,896
Insurance	22,747	32,844	3,022	-	58,613
Interest	34,540	-	-	-	34,540
Miscellaneous Expense	11,847	11,620	587	700	24,754
Mortgage Discount Expense	710,089	-	-	-	710,089
Office Expense	2,810	7,467	9,534	130	19,941
Payroll Taxes	15,611	42,177	14,011	9,504	81,303
Postage and Printing	1,522	837	589	11,881	14,829
Professional Fees	31,873	-	13,767	22,034	67,674
Property Taxes	6,166	-	598	598	7,362
Rent	45,471	488,020	13,957	27,914	575,362
Repairs and Maintenance	43,958	25,580	9,996	12,387	91,921
Salaries	207,679	539,230	179,343	123,743	1,049,995
Special Events	-	-	-	4,791	4,791
Training and Meetings	2,157	4,419	962	3,730	11,268
Travel	16,307	28,387	6,283	1,509	52,486
Utilities	19,532	73,669	6,543	5,653	105,397
Volunteer Expenses	699	150	-	-	849
Total Expenses	<u>\$ 3,231,363</u>	<u>\$ 3,530,015</u>	<u>\$ 395,320</u>	<u>\$ 252,872</u>	<u>\$ 7,409,570</u>

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2024

	Program Services		Supporting Services		Total
	Affordable Housing	ReStore	Management and General	Fundraising	
Advertising	\$ 11,025	\$ 18,782	\$ 3,139	\$ 10,572	\$ 43,518
AmeriCorps Expenses	1,709	-	-	-	1,709
Bad Debt Expense	5,000	-	-	-	5,000
Bank Fees	2,197	28,021	3,132	-	33,350
Building Campaign	45,762	-	-	-	45,762
Construction/Renovation Costs	2,852	-	-	-	2,852
Cost of Goods Sold – ReStore	-	1,670,828	-	-	1,670,828
Cost of Homes Transferred	1,051,711	-	-	-	1,051,711
Depreciation	12,686	8,261	1,356	1,356	23,659
Dues and Subscriptions	2,868	-	17,566	2,792	23,226
Employee Benefits	32,104	64,503	35,573	15,688	147,868
Insurance	17,737	25,583	2,780	-	46,100
Interest	46,308	-	-	-	46,308
Miscellaneous Expense	6,613	-	325	1,336	8,274
Mortgage Discount Expense	377,025	-	-	-	377,025
Office Expense	24,027	9,824	9,181	6,572	49,604
Payroll Taxes	15,150	35,782	13,232	8,589	72,753
Postage and Printing	3,514	2,400	604	897	7,415
Professional Fees	3,189	258	27,769	22,085	53,301
Property Taxes	5,152	-	988	988	7,128
Rent	2,700	159,458	-	-	162,158
Repairs and Maintenance	38,743	17,265	17,625	13,181	86,814
Salaries	195,600	473,150	165,391	123,123	957,264
Special Events	-	-	-	3,062	3,062
Training and Meetings	1,268	350	16,628	882	19,128
Travel	17,574	24,922	4,685	1,527	48,708
Utilities	13,727	58,966	4,861	3,580	81,134
Volunteer Expenses	4,751	-	-	225	4,976
Total Expenses	<u>\$ 1,940,992</u>	<u>\$ 2,598,353</u>	<u>\$ 324,835</u>	<u>\$ 216,455</u>	<u>\$ 5,080,635</u>

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 95,881	\$ 1,802,342
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided by Operating Activities:		
Depreciation	73,298	23,659
Mortgage Loan Discount Amortization	(185,984)	(250,029)
Secured Borrowing Discount Amortization	12,960	37,944
Amortization of Right-of-Use Asset	199,527	102,016
Discounts on Mortgages Issued	710,089	377,025
Change in Value of Beneficial Interest in Assets Held by a Community Foundation	(47,817)	(52,968)
(Increase) Decrease in:		
Promises to Give	243,411	(19,028)
Grant Receivable	-	(162,500)
Security Deposits	(25,271)	-
Prepaid Expenses	14,317	(13,852)
Inventory	320,005	(75,355)
Real Estate and Construction in Progress	149,359	(1,150,823)
Increase (Decrease) in:		
Accounts Payable	(97,135)	(28,516)
Accrued Payroll and Benefits	938	12,672
Other Accrued Expenses	3,010	(1,860)
Escrows Payable	11,048	(5,002)
Deferred Revenue	(76,687)	76,687
Lease Liabilities	<u>(165,058)</u>	<u>(103,153)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>1,235,891</u>	<u>569,259</u>
Cash Flows from Investing Activities:		
Purchase of Fixed Assets	(41,386)	(287,277)
Issuance of Mortgages Receivable	(1,142,000)	(606,000)
Payments Received on Mortgages Receivable	<u>360,214</u>	<u>521,513</u>
Net Cash and Cash Equivalents Used by Investing Activities	<u>(823,172)</u>	<u>(371,764)</u>
Cash Flows from Financing Activities:		
Payments on Notes Payable	(55,594)	(47,133)
Payments on Secured Borrowings	<u>(99,295)</u>	<u>(61,763)</u>
Net Cash and Cash Equivalents Used by Financing Activities	<u>(154,889)</u>	<u>(108,896)</u>
Net Increase in Cash and Cash Equivalents	257,830	88,599

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**
Consolidated Statements of Cash Flows – Continued
For the Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,711,110</u>	<u>1,622,511</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,968,940</u>	<u>\$ 1,711,110</u>
<u>Supplemental Cash Flow Disclosures:</u>		
Cash Paid for Interest	\$ 34,540	\$ 46,308
Cash Paid for Taxes	-	-
<u>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</u>		
Real Estate and Construction in Progress Included in Accounts Payable	\$ 217,005	\$ 76,466
Establishment of Right-of-Use Assets	-	7,439,619
Establishment of Lease Liabilities	-	7,439,619

The Accompanying Notes are an Integral Part of the Consolidated Financial Statements

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2025 and 2024

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

Lancaster Area Habitat for Humanity, Inc. dba Lancaster Lebanon Habitat for Humanity (LLHFH) is a charitable Christian ministry committed to providing affordable housing to individuals in need. LLHFH builds new homes and renovates older homes and sells them to low-income individuals in or near Lancaster and Lebanon Counties of the Commonwealth of Pennsylvania in exchange for a non-interest-bearing loan from the buyer. The buyers are required to donate approximately 500 hours of service toward the construction or improvement of residential properties. LLHFH also operates a building supply store (ReStore). Substantially all of the goods sold are donated, and the excess revenue over operating expenses is used in the mission of LLHFH.

LLHFH is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information, resources, training, publications, prayer support, and in other ways, LLHFH is primarily and directly responsible for its own operations.

LLHFH Funding Company I, LLC (the Funding Company), a Pennsylvania limited liability company, was formed in 2015 to engage solely in the activity of acquiring, holding, and pledging mortgage loans and related documents originated by LLHFH. LLHFH is the sole member of the funding company.

For purposes of these consolidated financial statements, the entities are collectively referred to as the Organization. The Organization is supported primarily through contributions and ReStore sales.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of LLHFH and the Funding Company. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting:

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation:

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Contributions:

Contributions received are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions.

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2025 and 2024

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents:

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include all highly liquid investments having an initial maturity of three months or less.

Promises to Give:

Promises to give are stated at their outstanding balance. Promises to give are recognized when the Organization is notified of the promises. If collection becomes doubtful, an allowance for uncollectible promises to give will be established or the accounts will be charged to expense when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. The Organization expects to collect all pledges within one to ten years. Accordingly, a discount of \$11,083 and \$13,860 was recorded on promises to give at June 30, 2025 and 2024, respectively. Management has established an allowance for doubtful accounts.

Inventory:

Inventory consists of finished houses and ReStore inventory. It is the Organization's policy to write-down the finished houses' inventory to net realizable value to account for the estimated mortgage discounts. The mortgage discount is the estimated interest that will not be incurred by homeowners since the mortgages are non-interest bearing. The Organization recognizes its inventory using guidance from Habitat International at an estimated value based on 45 days of annual retail sales from the past 12 months.

Investments:

Investments are valued at their fair market values on a recurring basis in the Consolidated Statements of Financial Position.

Fair Value Reporting requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

For investments that have quoted market prices in active markets, the Organization uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the Organization's own determinations of the assumptions that a market participant would use in pricing the asset. The Organization held no investments at June 30, 2025 and 2024.

Investment income, including realized and unrealized gains restricted by donors, is reported as an increase in net assets without donor restrictions if the restrictions are met (either a stipulated time period or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported in the Consolidated Statements of Financial Position and the Consolidated Statements of Activities.

**LANCASTER AREA HABITAT FOR HUMANITY, INC. DBA
LANCASTER LEBANON HABITAT FOR HUMANITY AND AFFILIATE**

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2025 and 2024

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-Interest-Bearing Mortgages Receivable:

Non-interest-bearing mortgages receivable are recorded when houses are sold. The transfer is recorded at the total amount of payments to be received over the life of the mortgage, net of the mortgage discount. Non-interest-bearing mortgages have been discounted at various rates ranging from 3% to 9% based upon rates recommended by Habitat International. The rates are based on the 70% low-income housing credit discount rate from the IRS. Discounts are amortized using the straight-line method over the lives of the mortgages. Mortgages are stated at principal amounts, net of the allowance for unamortized discount. Allowances for bad debts are not recorded because the Organization believes the fair value of the properties substantially exceeds the mortgage principal. Mortgage discount is the estimated interest that will not be incurred by homeowners since the mortgages are non-interest bearing. Management has the intent and ability to hold these receivables until maturity or payoff. Account balances are generally written off when management judges such balances as uncollectible, such as an account in bankruptcy. Management continually monitors and reviews the account balances.

Fixed Assets:

The Organization capitalizes assets with a cost or fair market value of \$2,500 or more and a useful life of at least one year. Fixed assets are capitalized at cost or in the case of donated property, at estimated fair value at the date of donation. Fixed assets are depreciated using the straight-line method over the estimated average useful lives of the assets.

Expenditures for additions, major renewals, and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. Gain or loss on the sales or disposal of assets is credited or charged to operations and the related asset costs and accumulated depreciation are removed from the respective accounts.

Real Estate and Construction in Progress:

Real estate and construction in progress is stated at net realizable value. Real estate includes vacant land and land improvements when construction has not yet begun. When construction starts on a specific house, land and land improvements are allocated to the house (construction in progress).

Construction in progress includes land acquisition and development costs and building materials and supplies. It is the Organization's policy to write-down the real estate and construction in progress to net realizable value. The completed houses are reclassified to inventory at net realizable value.

Right-of-Use Assets and Lease Liabilities:

The Organization determines if an arrangement is or contains a lease at inception of the contract. The right-of-use (ROU) assets represent the right to use the underlying assets for the lease term, and the lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As the Organization's leases generally do not provide an implicit rate, the Organization's incremental borrowing rate or a risk-free borrowing rate at commencement date is used to determine the present value of future payments. Lease terms may include options to extend the lease, terminate the lease, or purchase the leased asset. The value of a lease option is reflected in the valuation if it is reasonably certain management will exercise the option. Leases with a term of twelve months or less are considered short term, and no asset or liability needs to be recognized. The Organization has elected not to separate the lease components from non-lease components for all asset classes.

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NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue:

Income received in the current year for the subsequent year's projects or events is not recognized as income until the subsequent year, and is therefore considered deferred revenue at the end of the current year.

Donated Assets, Materials, and Services:

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Donated services from professionals or craftsmen that require specialized skills have been recorded as contributions in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Transfers to Homeowners:

Transfers to homeowners revenue is recorded when a home is sold. The transfers are recorded at the total amount of payments to be received over the life of the mortgage, net of the mortgage discount.

Cost of Goods Sold:

Cost of goods sold is estimated based on sales of ReStore inventory during the year. Such expenses are recorded within ReStore program expenses on the Consolidated Statements of Activities.

Functional Expense Allocation:

Functional expenses are allocated based on the division of costs among programs and supporting services according to a combination of specific identification and allocation by management. Supporting services include management and general expenses and fundraising costs.

Taxation:

LLHFH is exempt from federal income tax as provided by Code Section 501(c)(3) of the Internal Revenue Code. Donors are entitled to deductions for federal income tax purposes for contributions made to LLHFH in accordance with the Internal Revenue Code. Accordingly, no income tax is incurred unless LLHFH earns income considered to be unrelated business income. LLHFH conducted no activities that were subject to income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by LLHFH, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that LLHFH had taken no uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. With few exceptions, LLHFH is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before June 30, 2022.

The Funding Company is a limited liability company treated as a partnership for federal and state income tax purposes. The Funding Company is considered a disregarded entity; therefore, the income and expenses from the Funding Company are combined with the income and expenses of LLHFH and reported on the LLHFH's federal tax return, if applicable. With few exceptions, the Funding Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before June 30, 2022.

Use of Estimates:

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

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NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Cash and Cash Equivalents – Operating	\$ 1,841,444	\$ 1,594,662
Cash and Cash Equivalents Restricted for Escrows	<u>127,496</u>	<u>116,448</u>
Total Cash and Cash Equivalents	<u>\$ 1,968,940</u>	<u>\$ 1,711,110</u>

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at June 30:

	<u>2025</u>	<u>2024</u>
Financial Assets:		
Cash and Cash Equivalents – Operating	\$ 1,841,444	\$ 1,594,662
Promises to Give, Net	180,364	423,775
Grant Receivable	162,500	162,500
Current Portion of Non-Interest-Bearing Mortgages Receivable (Net of Unamortized Discount of \$146,282 and \$132,025, respectively)	115,432	111,402
Beneficial Interest in Assets Held by a Community Foundation	<u>849,160</u>	<u>801,343</u>
Total Financial Assets	<u>3,148,900</u>	<u>3,093,682</u>
Less Amounts Not Available to be Used Within One Year		
Board Designated Net Assets	1,081,653	1,035,392
Net Assets with Donor Restrictions	<u>197,871</u>	<u>1,240,951</u>
Total	<u>1,279,524</u>	<u>2,276,343</u>
Financial Assets Available to Meet Expenses Over the Next Year	<u>\$ 1,869,376</u>	<u>\$ 817,339</u>

The Organization’s plan is generally to maintain financial assets to meet 90 days of operating expenses. As described in Note 11, the Organization also has a committed line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 4 – PROMISES TO GIVE

Promises to give consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Promises to Give	\$ 185,911	\$ 432,304
Allowance for Doubtful Accounts	<u>(5,547)</u>	<u>(8,529)</u>
Total Promises to Give, Net	<u>\$ 180,364</u>	<u>\$ 423,775</u>

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NOTE 4 – PROMISES TO GIVE (CONTINUED)

Assuming no changes in current terms, the following promises to give are due in:

	<u>2025</u>	<u>2024</u>
Less Than One Year	\$ 96,994	\$ 283,764
One Year to Five Years	80,000	122,400
More than 5 Years	20,000	40,000
3.98% Discount on Promises to Give	<u>(11,083)</u>	<u>(13,860)</u>
Total	<u>\$ 185,911</u>	<u>\$ 432,304</u>

NOTE 5 – INVENTORY

Inventories consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Finished Houses	\$ -	\$ 379,629
ReStore Inventory	<u>244,011</u>	<u>184,387</u>
Total	<u>\$ 244,011</u>	<u>\$ 564,016</u>

NOTE 6 – REAL ESTATE AND CONSTRUCTION IN PROGRESS

Real estate and construction in progress consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Acquisitions in Progress	\$ -	\$ 26,472
Homes Under Construction	2,421,786	2,358,176
Land Held for Sale	279,311	249,906
Land Held for Development	<u>64,306</u>	<u>63,203</u>
Total	<u>\$ 2,765,403</u>	<u>\$ 2,697,757</u>

NOTE 7 – BENEFICIAL INTEREST IN ASSETS HELD BY A COMMUNITY FOUNDATION

The Organization has transferred \$10,000 to the Lancaster County Community Foundation (the Foundation) which is holding the reciprocal gift as an endowed component fund (the Fund) for the benefit of the Organization. The Foundation fully matched the Organization's transfer of \$10,000 for a total original endowed asset balance of \$20,000. The Foundation has variance power over the matched portion of the Fund which gives the Foundation's Board of Trustees the power to use the matched portion of the Fund for other purposes in certain limited circumstances and as a result, this portion is not recorded as an asset on the Consolidated Statements of Financial Position of the Organization. The Fund is subject to the Foundation's investment and spending policies which currently result in a distribution to the Organization of five percent of the average annual value, at June 30 and December 31, over the previous five years.

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NOTE 7 – BENEFICIAL INTEREST IN ASSETS HELD BY A COMMUNITY FOUNDATION (CONTINUED)

The Organization reports the fair value of their originally transferred portion of the Fund as beneficial interest in assets held by a community foundation in the Consolidated Statements of Financial Position and reports distributions received as investment income on the Consolidated Statements of Activities. Changes in the value of the Fund are reported as change in value of beneficial interest in assets held by a community foundation on the Consolidated Statements of Activities. During the year ended June 30, 2023, the Organization established a Flex Fund with the Foundation. These funds and accumulated income contributed to the Flex Fund are considered to be Board Designated.

The fair value of the Organization’s beneficial interest in assets held by a community foundation is determined, based on management’s assumptions, which market participants would use in pricing the assets. The assumptions are developed based on the best information available, which is a Level 3 valuation input, as described in Note 1 – “Investments”. The fair value of the Organization’s beneficial interest in assets held by a community foundation amounted to \$849,160 and \$801,343 at June 30, 2025 and 2024, respectively.

	Perpetually <u>Restricted</u>	Board <u>Designated</u>	<u>Total</u>
Balance at June 30, 2023	\$ 14,251	\$ 734,124	\$ 748,375
Change in Value of Beneficial Interest in Assets Held by a Community Foundation	<u>1,700</u>	<u>51,268</u>	<u>52,968</u>
Balance at June 30, 2024	15,951	785,392	801,343
Change in Value of Beneficial Interest in Assets Held by a Community Foundation	<u>1,556</u>	<u>46,261</u>	<u>47,817</u>
Balance at June 30, 2025	<u>\$ 17,507</u>	<u>\$ 831,653</u>	<u>\$ 849,160</u>

NOTE 8 – LEASES

The Organization entered into a two-year operating lease for the ReStore Warehouse in May 2022 with monthly payments of \$10,200, increasing to \$10,450 after the first year. The Organization recognized a right-of-use asset of \$221,816 and a lease liability of \$221,816 as of July 1, 2022. The Organization entered into a twenty-year operating lease for the ReStore Warehouse and Office Space in June 2024 with monthly payments of \$42,970, increasing 2.5% per year starting in the eighth year. The Organization recognized a right-of-use asset of \$7,439,619 and a lease liability of \$7,439,619 as of June 30, 2024.

The Organization recognized the following lease costs associated with the lease during the years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
ReStore Lease	\$ 479,172	\$ 103,364
Short-Term Lease Cost	<u>-</u>	<u>53,805</u>
Total Lease Cost	<u>\$ 479,172</u>	<u>\$ 157,169</u>

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NOTE 8 – LEASES (CONTINUED)

The Organization had the following cash and non-cash activities associated with the operating leases during the years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ 444,703	\$ 104,500
Right-of-use assets obtained in exchange for new lease liabilities	\$ -	\$ 7,439,619
Right-of-use asset balance, net of accumulated amortization	\$ 7,240,092	\$ 7,439,619
Weighted average remaining lease term for leases (years)	19.25	20.25
Weighted average discount rate	4.56 %	4.56 %

The future minimum lease payments due under the operating leases as of June 30, 2025, are as follows:

2026	\$ 515,642
2027	515,642
2028	515,642
2029	515,642
2030	515,642
Thereafter	<u>8,668,890</u>
 Total Lease Payments	 <u>11,247,100</u>
 Imputed Interest	 <u>(3,972,539)</u>
 Total Operating Lease Liabilities, Net	 <u>\$ 7,274,561</u>

NOTE 9 – FIXED ASSETS

Fixed assets consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Land	\$ 47,571	\$ 47,571
Buildings and Improvements	168,968	149,409
Furniture and Equipment	283,387	261,560
Vehicles	194,222	194,222
Construction Tools and Equipment	<u>959</u>	<u>959</u>
	695,107	653,721
Less: Accumulated Depreciation	<u>(335,062)</u>	<u>(261,764)</u>
 Fixed Assets, Net	 <u>\$ 360,045</u>	 <u>\$ 391,957</u>

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NOTE 9 – FIXED ASSETS (CONTINUED)

The useful lives for purposes of computing depreciation are as follows:

Buildings and Improvements	5-30 Years
Furniture and Equipment	3-5 Years
Vehicles	5 Years
Construction Tools and Equipment	5 Years

Depreciation expense was \$73,298 and \$23,659 for the years ended June 30, 2025 and 2024, respectively.

NOTE 10 – NON-INTEREST-BEARING MORTGAGES RECEIVABLE

The non-interest-bearing mortgages receivable are mortgages which mature in 2026 through 2055. The related properties are pledged as collateral for mortgages. The 62 mortgages receivable, net of discounts at June 30, 2025, ranged from \$1,490 to \$82,356. The 62 mortgages receivable, net of discounts at June 30, 2024, ranged from \$1,217 to \$64,280. Management has concluded 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.

The following schedule summarizes the payment status of the mortgage loans at June 30:

	2025			
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Discount Amount</u>	<u>Net Amount</u>
Current	57	\$ 4,824,641	\$ 2,779,158	\$ 2,045,483
31 to 60 Days Past Due	1	74,779	43,969	30,810
More Than 60 Days Past Due	4	314,594	179,626	134,968
Total	62	\$ 5,214,014	\$ 3,002,753	\$ 2,211,261
	2024			
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Discount Amount</u>	<u>Net Amount</u>
Current	59	\$ 4,237,008	\$ 2,375,564	\$ 1,861,444
31 to 60 Days Past Due	1	22,265	13,021	9,244
More Than 60 Days Past Due	2	172,955	90,063	82,892
Total	62	\$ 4,432,228	\$ 2,478,648	\$ 1,953,580

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NOTE 10 – NON-INTEREST-BEARING MORTGAGES RECEIVABLE (CONTINUED)

Aggregate maturities of non-interest-bearing mortgages receivable, net of unamortized discount, assuming no change in current terms, consist of the following for the five years ending June 30 and thereafter:

2026	\$ 115,432
2027	114,156
2028	112,842
2029	111,413
2030	109,791
Thereafter	<u>1,647,627</u>
Total	<u>\$ 2,211,261</u>

NOTE 11 – LINE OF CREDIT

The Organization has a line of credit with a bank with a borrowing capacity of \$500,000 and a variable interest rate at the bank's prime rate with a minimum rate of 4.00%. The interest rate was 7.5% at June 30, 2025. The outstanding balance on the line of credit was \$0 at June 30, 2025 and 2024. The line of credit is secured by the Organization's furniture, fixtures, equipment, and mortgages receivable.

Interest expense on the line of credit was \$0 for the years ended June 30, 2025 and 2024.

NOTE 12 – NOTES PAYABLE

Notes payable consist of the following as of June 30:

	<u>2025</u>	<u>2024</u>
Installment note to Habitat International; quarterly installments of \$12,169, which includes interest compounded quarterly at a fixed rate of 5.00% per annum; matures on June 30, 2029; collateralized by nine (9) of the Organization's mortgages receivable.	\$ 174,045	\$ 214,642
Note payable to Small Business Administration; monthly payments of \$2,205 at an interest rate of 2.75% starting in November 2022; matures in 30 years.	<u>463,735</u>	<u>478,732</u>
Total	<u>\$ 637,780</u>	<u>\$ 693,374</u>

Aggregate maturities of notes payable, assuming no change in current terms, consist of the following for the five years ending June 30 and thereafter:

2026	\$ 54,536
2027	56,994
2028	59,568
2029	62,264
2030	15,494
Thereafter	<u>388,924</u>
Total	<u>\$ 637,780</u>

Interest expense was \$19,906 and \$28,001 for the years ended June 30, 2025 and 2024, respectively.

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NOTE 13 – SECURED BORROWINGS

During the year ended June 30, 2015, LLHFH and the Funding Company entered into a loan purchase and sale agreement in which the Funding Company purchased eleven mortgage loans from LLHFH and acquired all of LLHFH’s rights, title, and interest in the mortgage loans, excluding the servicing rights. In the event of any default or breach that materially and adversely affects the value of mortgage loans, LLHFH is required to either repurchase the loan(s) at the repurchase price or provide a substitute mortgage loan. In order to finance its acquisition of the mortgage loans, the Funding Company entered into a pledge and security agreement with PNC Community Development Company, LLC (PNC) in which PNC purchased from the Funding Company a promissory note secured by the homeowner mortgage loans purchased from LLHFH. At the time of the sale, the outstanding balance on the mortgages sold amounted to \$1,235,975. Gross proceeds amounted to \$851,076. In April 2018, the Organization repurchased one loan at its outstanding balance of \$116,869 due to a default on the loan. In May 2019, the Organization exchanged one loan with an outstanding balance of \$106,626 due to default. The Organization exchanged it for one loan with an outstanding balance of \$112,429. The outstanding balance of the associated mortgage loans was \$558,530 and \$644,140 at June 30, 2025 and 2024, respectively.

Under FASB ASC Topic 860, *Transfers and Servicing*, the transfers of these loans have not been recorded as a sale, but rather as a secured borrowing because the Organization has maintained effective control over the transferred assets. Therefore, the transferred mortgages, net of the related mortgage discounts, remain in the balance of mortgages receivable. Furthermore, the Organization recognized a liability equal to the amount of the loans at the date they were transferred and this liability is reduced as payments are made to third parties. This liability is presented net of the related loan discounts, which represents the imputed interest on the loans. The rates are recommended by Habitat International. The rates are based on the 70% low income housing credit discount rate from the IRS and range between 7% and 8%. The loan discounts related to the transaction with PNC Bank are calculated using a discount rate of 3%.

Aggregate maturities required on the secured borrowings, assuming no change in current terms, consist of the following for the five years ending June 30 and thereafter:

2026, Net of Discounts of \$12,960	\$ 24,443
2027, Net of Discounts of \$12,960	24,443
2028, Net of Discounts of \$12,960	24,443
2029, Net of Discounts of \$12,960	24,443
2030, Net of Discounts of \$12,960	24,443
Thereafter, Net of Discounts of \$148,665	<u>359,826</u>
 Total	 <u>\$ 482,041</u>

Interest expense on the secured borrowings was \$14,634 and \$18,307 for the years ended June 30, 2025 and 2024, respectively.

NOTE 14 – NONFINANCIAL CONTRIBUTIONS

The Organization records various types of nonfinancial contributions. 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 possessing those skills, and would typically need to be purchased if not provided by donation. Donated ReStore items are also valued based on sale price and inventory is estimated based on 45 days of sale. The amounts reflected in the accompanying consolidated financial statements as nonfinancial contributions are offset by like amounts included in expenses or recorded as additions to inventory and fixed assets. The Organization received the following nonfinancial contributions during the years ended June 30, 2025 and 2024:

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NOTE 14 – NONFINANCIAL CONTRIBUTIONS (CONTINUED)

	<u>2025</u>	<u>2024</u>
ReStore Contributions	\$ 1,956,383	\$ 1,491,678
Professional Services	<u>11,816</u>	<u>18,924</u>
Total Nonfinancial Contributions	<u>\$ 1,968,199</u>	<u>\$ 1,510,602</u>

NOTE 15 – BOARD-DESIGNATED NET ASSETS

Board-designated net assets are comprised of the following at June 30:

	<u>2025</u>	<u>2024</u>
Lancaster County Community Foundation (Note 7)	\$ 831,653	\$ 785,392
Board Designated Reserve	<u>250,000</u>	<u>250,000</u>
Total	<u>\$ 1,081,653</u>	<u>\$ 1,035,392</u>

NOTE 16 – NET ASSETS WITH DONOR RESTRICTIONS

Time and purpose restricted net assets consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Promises to Give, Net (Note 4)	\$ 180,364	\$ 423,775
Building Campaign	-	722,129
913 Wheatland Building	<u>-</u>	<u>79,096</u>
Total Time and Purpose Restricted Net Assets	<u>180,364</u>	<u>1,225,000</u>

Perpetually restricted net assets consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Beneficial Interest in Assets Held by a Community Foundation (Note 7)	<u>17,507</u>	<u>15,951</u>
Total Net Assets with Donor Restrictions	<u>\$ 197,871</u>	<u>\$ 1,240,951</u>

NOTE 17 – ADVERTISING

Advertising costs are expensed as incurred. Advertising costs totaled \$10,507 and \$43,518 for the years ended June 30, 2025 and 2024, respectively.

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NOTE 18 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. The Organization's bank balances may exceed the FDIC limit at various times throughout the year. The amounts in excess of the FDIC limit were \$1,559,342 and \$1,257,445 at June 30, 2025 and 2024, respectively.

NOTE 19 – RECLASSIFICATIONS

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to confirm with the presentation of current-year financial statements.

NOTE 20 – PRIOR PERIOD RESTATEMENT

During 2025, management determined that the Organization's net assets with donor restrictions of \$162,500 should have been recorded as net assets without donor restrictions. This resulted in a prior period restatement of \$162,500 between net assets with and without donor restrictions at June 30, 2024. This prior period restatement is reflected on the Consolidated Statement of Financial Position and Consolidated Statement of Activities.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 15, 2025, which is the date the consolidated financial statements were available to be issued.