

**HABITAT FOR HUMANITY
OF
FORSYTH COUNTY, INC.**

Financial Statements

June 30, 2021 and 2020

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Board of Directors
Habitat for Humanity of Forsyth County, Inc.
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Habitat for Humanity of Forsyth County, Inc., which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 U.S. generally accepted accounting principles; 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 audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 Forsyth County, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter – Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of home building activity on pages 26 – 27 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Butler & Burke LLP

Winston-Salem, North Carolina
November 2, 2021

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,356,739	\$ 1,070,895
Promises to give, net	46,500	186,542
Grants receivable	-	14,800
Other receivables	98,996	46,057
Non-interest bearing mortgage notes receivable, net	5,598,905	5,718,398
Real estate held for sale and development	674,616	719,027
Houses under construction	365,088	434,933
Property and equipment, net	4,199,536	4,199,795
Beneficial interest in assets held by others	382,014	300,913
Other assets	<u>167,297</u>	<u>102,404</u>
<u>TOTAL ASSETS</u>	<u>\$ 12,889,691</u>	<u>\$ 12,793,764</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 319,225	\$ 243,505
Loans payable (PPP)	292,545	292,200
Notes payable	1,579,928	1,854,091
Non-interest bearing notes payable, net	<u>1,300,734</u>	<u>1,274,034</u>
<u>Total Liabilities</u>	<u>3,492,432</u>	<u>3,663,830</u>
Net Assets		
Without Donor Restrictions		
Undesignated	5,899,960	5,753,275
Net investment in property and equipment	2,792,099	2,728,195
Designated for endowment	<u>198,843</u>	<u>177,822</u>
	8,890,902	8,659,292
With Donor Restrictions	<u>506,357</u>	<u>470,642</u>
<u>Total Net Assets</u>	<u>9,397,259</u>	<u>9,129,934</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 12,889,691</u>	<u>\$ 12,793,764</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 287,425	\$ 84,924	\$ 372,349
Grants	101,109	251,705	352,814
Hammerbird 5k	4,982	-	4,982
Blueprint breakfast	-	44,521	44,521
House sponsor donations	325,105	92,427	417,532
Gifts-in-kind	76,053	-	76,053
Government contracts	138,200	-	138,200
Sale of completed houses (net of discounts of \$382,637)	589,163	-	589,163
Amortization of mortgage discount	416,259	-	416,259
ReStore sales	2,273,371	-	2,273,371
Change in value of beneficial interest	41,021	30,276	71,297
Gain upon debt extinguishment	292,200	-	292,200
Other income	<u>150,219</u>	<u>-</u>	<u>150,219</u>
	4,695,107	503,853	5,198,960
Net assets released from restrictions	<u>468,138</u>	<u>(468,138)</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>5,163,245</u>	<u>35,715</u>	<u>5,198,960</u>
EXPENSES			
Program services			
Construction, volunteer and family services	2,515,395	-	2,515,395
ReStore	1,755,488	-	1,755,488
Management and general	376,182	-	376,182
Fundraising	<u>284,570</u>	<u>-</u>	<u>284,570</u>
<u>Total Expenses</u>	<u>4,931,635</u>	<u>-</u>	<u>4,931,635</u>
CHANGE IN NET ASSETS	231,610	35,715	267,325
Net Assets, Beginning of Year	<u>8,659,292</u>	<u>470,642</u>	<u>9,129,934</u>
Net Assets, End of Year	<u><u>\$ 8,890,902</u></u>	<u><u>\$ 506,357</u></u>	<u><u>\$ 9,397,259</u></u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 378,022	\$ 4,535	\$ 382,557
Grants	132,660	222,500	355,160
Hammerbird 5k	16,552	-	16,552
Golf tournament	41,367	-	41,367
Blueprint breakfast	-	74,276	74,276
House sponsor donations	145,424	102,956	248,380
Gifts-in-kind	189,963	-	189,963
Government contracts	162,800	-	162,800
Sale of completed houses (net of discounts of \$309,728)	781,472	-	781,472
Amortization of mortgage discount	507,542	-	507,542
ReStore sales	1,621,571	-	1,621,571
Change in value of beneficial interest	(4,359)	(3,062)	(7,421)
Other income	163,076	-	163,076
	<u>4,136,090</u>	<u>401,205</u>	<u>4,537,295</u>
Net assets released from restrictions	<u>489,668</u>	<u>(489,668)</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>4,625,758</u>	<u>(88,463)</u>	<u>4,537,295</u>
EXPENSES			
Program services			
Construction, volunteer and family services	2,625,457	-	2,625,457
ReStore	1,475,500	-	1,475,500
Management and general	328,889	-	328,889
Fundraising	292,138	-	292,138
	<u>4,721,984</u>	<u>-</u>	<u>4,721,984</u>
<u>Total Expenses</u>	<u>4,721,984</u>	<u>-</u>	<u>4,721,984</u>
CHANGE IN NET ASSETS	(96,226)	(88,463)	(184,689)
Net Assets, Beginning of Year	<u>8,755,518</u>	<u>559,105</u>	<u>9,314,623</u>
Net Assets, End of Year	<u>\$ 8,659,292</u>	<u>\$ 470,642</u>	<u>\$ 9,129,934</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Services			Management and General	Fundraising	Total
	Construction, Volunteer and Family Services	ReStore	Total Program Services			
Building lots, materials and supplies (including \$24,854 of donated construction materials)	\$ 1,005,098	\$ -	\$ 1,005,098	\$ -	\$ -	\$ 1,005,098
Other donated materials and services	48,928	-	48,928	-	-	48,928
Salaries and benefits	883,637	929,925	1,813,562	242,493	158,102	2,214,157
Rent	-	116,619	116,619	-	-	116,619
Repairs and maintenance	85,216	87,492	172,708	40,686	-	213,394
Travel and vehicle	15,955	41,824	57,779	-	-	57,779
Insurance	34,699	19,118	53,817	2,724	3,030	59,571
Publicity	898	42,404	43,302	4,069	26,530	73,901
Office expense	25,869	40,494	66,363	2,056	29,132	97,551
Utilities	26,286	41,298	67,584	5,566	-	73,150
Tithe to HFH International	31,000	-	31,000	-	-	31,000
Hammerbird 5k	-	-	-	-	1,221	1,221
Blueprint breakfast	-	-	-	-	1,725	1,725
Interest	36,094	30,228	66,322	-	-	66,322
Amortization of discount on non-interest bearing notes payable	98,981	-	98,981	-	-	98,981
Depreciation	59,555	83,642	143,197	9,090	9,779	162,066
Volunteer expense	8,450	-	8,450	877	-	9,327
Professional fees	-	-	-	22,874	-	22,874
Provision for uncollectible pledges	-	-	-	-	47,424	47,424
Other	154,729	322,444	477,173	45,747	7,627	530,547
	<u>\$ 2,515,395</u>	<u>\$ 1,755,488</u>	<u>\$ 4,270,883</u>	<u>\$ 376,182</u>	<u>\$ 284,570</u>	<u>\$ 4,931,635</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Services			Management and General	Fundraising	Total
	Construction, Volunteer and Family Services	ReStore	Total Program Services			
Building lots, materials and supplies (including \$150,675 of donated construction materials)	\$ 1,186,344	\$ -	\$ 1,186,344	\$ -	\$ -	\$ 1,186,344
Other donated materials and services	37,774	-	37,774	-	-	37,774
Salaries and benefits	840,595	761,261	1,601,856	217,132	176,941	1,995,929
Rent	-	98,797	98,797	-	-	98,797
Repairs and maintenance	63,768	48,168	111,936	29,554	-	141,490
Travel and vehicle	19,384	28,938	48,322	-	-	48,322
Insurance	32,301	18,623	50,924	2,864	2,804	56,592
Publicity	1,179	40,948	42,127	4,030	21,055	67,212
Office expense	28,256	37,869	66,125	1,974	46,968	115,067
Utilities	30,181	45,677	75,858	5,704	-	81,562
Tithe to HFH International	30,500	-	30,500	-	-	30,500
Hammerbird 5k	-	-	-	-	551	551
Golf tournament	-	-	-	-	10,889	10,889
Blueprint breakfast	-	-	-	-	5,290	5,290
Interest	29,979	34,903	64,882	-	-	64,882
Amortization of discount on non-interest bearing notes payable	104,076	-	104,076	-	-	104,076
Depreciation	86,829	84,548	171,377	9,960	10,968	192,305
Volunteer expense	21,384	-	21,384	1,444	-	22,828
Professional fees	981	-	981	22,836	-	23,817
Provision for uncollectible pledges	-	-	-	-	2,827	2,827
Other	111,926	275,768	387,694	33,391	13,845	434,930
	<u>\$ 2,625,457</u>	<u>\$ 1,475,500</u>	<u>\$ 4,100,957</u>	<u>\$ 328,889</u>	<u>\$ 292,138</u>	<u>\$ 4,721,984</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 267,325	\$ (184,689)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	162,066	192,305
Issuance of non-interest bearing mortgage loans	(901,385)	(697,400)
Discounts on newly issued non-interest bearing mortgage loans	524,717	417,374
Amortization of mortgage discounts	(416,259)	(507,542)
Amortization of discounts on non-interest bearing notes payable	98,981	104,076
Discounts on current year non-interest bearing notes payable	(142,080)	(107,646)
Amortization of discount on promises to give	(582)	(1,216)
Other non-cash donations of real estate held for sale and development	-	(50,200)
Provision for uncollectible promises to give	47,424	2,827
Change in value of beneficial interest	(71,297)	7,421
Gain upon debt extinguishment	(292,200)	-
Changes in operating assets and liabilities		
(Increase) decrease in:		
Promises to give	93,200	28,925
Grants receivable	14,800	32,500
Other receivables	(52,939)	68,817
Non-interest bearing mortgage notes receivable	912,420	963,464
Houses under construction	69,845	(152,565)
Real estate held for sale and development	44,411	(415,299)
Other assets	(64,893)	(34,584)
Increase (decrease) in:		
Accounts payable and accrued expenses	75,720	32,004
Contributions restricted for long-term purposes	(34,924)	-
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>334,350</u>	<u>(301,428)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(161,807)	(103,282)
Additions to beneficial interest	(34,924)	-
Beneficial interest distributions	25,120	13,203
<u>Net Cash Used in Investing Activities</u>	<u>(171,611)</u>	<u>(90,079)</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(274,163)	(855,094)
Payments on non-interest bearing notes payable	(170,201)	(180,884)
Proceeds from loans payable	292,545	292,200
Proceeds from notes payable	-	1,150,000
Proceeds from current year non-interest bearing notes payable	240,000	180,000
Repayment of capital lease obligation	-	(4,602)
Contributions restricted for long-term purposes	34,924	-
<u>Net Cash Provided by Financing Activities</u>	<u>123,105</u>	<u>581,620</u>
 Increase in Cash and Cash Equivalents	 285,844	 190,113
 Cash and Cash Equivalents at Beginning of Year	 <u>1,070,895</u>	 <u>880,782</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 1,356,739</u>	 <u>\$ 1,070,895</u>
 <u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for interest	<u>\$ 65,834</u>	<u>\$ 66,755</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A: ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity of Forsyth County, Inc. ("Habitat"), an affiliate of Habitat for Humanity International, Inc. ("HFHI") is a North Carolina not-for-profit corporation organized in 1985 whose purpose is to mobilize community resources to advocate for the elimination of substandard housing and to build affordable housing for low-income individuals and families in Forsyth County, North Carolina, through a program both privately and publicly financed, and to sell such housing to low-income persons at appraised value, which approximates cost, under twenty to thirty year non-interest bearing mortgage notes. Habitat finances its operations through continuing contributions, mortgage payment receipts, ReStore sales, and grants. Habitat operates several retail ReStore locations which are open to the public to sell new and used furniture, building supplies, and creative merchandise for home improvements. ReStore accepts donated goods from individuals and businesses. Although HFHI assists with information resources, training, publications, and in other ways, Habitat is directly responsible for its own operations. Habitat is required to make contributions to HFHI for the construction of homes in economically depressed areas outside the United States, in order to maintain status as an affiliate in good standing.

Habitat complied with the State mandated COVID-19 shut down of non-essential businesses and closed the ReStore locations on March 23, 2020. The ReStores remained closed for almost seven weeks and opened with reduced hours on May 9, 2020. Habitat was able to maintain employee payroll for ReStore employees except for the first two weeks until approval of a Payroll Protection Program loan. Habitat also experienced diminished capacity in construction operations and program revenue without the assistance of college groups and community volunteers due to safety protocols.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Habitat have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). Habitat reports 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.

Net assets without donor restrictions - net assets that are not restricted by donors or for which donor-imposed restrictions have expired. If the board specifies a purpose where none has been stated, such funds are classified as board designated net assets without donor restrictions.

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e. donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Habitat has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent donor restrictions were met in the year the contribution was received.

Cash and Cash Equivalents

Habitat considers all short-term investments with original maturity of three months or less to be cash equivalents. These accounts at times may exceed federally insured limits. Habitat has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk.

Promises to Give

Contributions and grants (promises to give) are recognized as revenues in the period the commitment is made. Habitat records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contributions and grants revenue in the statements of activities. Habitat determines an allowance for uncollectible promises to give based on historical experience, an assessment of the economic conditions, and a review of subsequent collections. The allowance for uncollectible promises to give was \$1,000 and \$7,283 at June 30, 2021 and 2020, respectively. Promises to give are written off when deemed uncollectible. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met.

Grants and Other Receivables

Grants and other receivables are recorded at net realizable value consisting of the carrying amount less the allowance for uncollectible accounts, as needed. Habitat uses the allowance method to account for uncollectible receivable balances. Under the allowance method, if needed, an estimate of uncollectible balances is made based upon specific account balances that are considered uncollectible. No allowance was considered necessary at June 30, 2021 or 2020.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Held for Sale and Development

Real estate held for sale and development consists of both purchased and donated lots. Purchased lots are valued at historical cost. Donated lots are valued using the appraised values from either an independent appraisal or from property tax records. Since all donated property is unrestricted, management may determine that certain property is not suitable for construction and may elect to sell or otherwise dispose of the property. Real estate held for sale is valued at the lower of cost or market.

Property and Equipment

Property, equipment and leasehold improvements are capitalized at cost, unless donated. Donated property is stated at fair market value at the date of the gift. It is Habitat's policy to capitalize expenditures for these items in excess of \$2,000. Lesser amounts are expensed. Depreciation and amortization are provided on the straight-line method over estimated useful lives ranging from 3 to 39 years. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For assets held and used, an impairment charge is recognized if projected undiscounted cash flows are less than the carrying value of the assets. For assets held for disposal, an impairment charge is recognized if the carrying value of the assets exceeds the fair value less costs to sell.

Beneficial Interest in Assets Held by Others

Habitat has established trust arrangements with the Winston-Salem Foundation (the "Foundation"), the purpose of which is to provide permanent endowments to support the future needs of Habitat. Donor contributions and monies designated by the Board have been irrevocably transferred to the Foundation, who will invest the funds and make quarterly earnings distributions, to Habitat or accumulated income funds within the endowments, in an amount determined by the Foundation. Habitat has granted the Foundation variance power, the unilateral power to redirect the use of the assets, but has retained a right to the assets by specifying itself as the beneficiary. Pursuant to GAAP, these endowments have been recognized as a beneficial interest in assets held by others in the accompanying statements of financial position at the current market value of the underlying investments held by the Foundation, which amounted to \$382,014 and \$300,913 as of June 30, 2021 and 2020, respectively. Habitat is not subject to the Uniform Prudent Management of Institutional Funds Act or the endowment disclosure requirements of FASB ASC 958-205-50 for these funds since control over the funds was relinquished to the Foundation.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and In-Kind Contributions

Contributions of assets other than cash are recorded at their estimated fair value. Habitat reports revenues for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. These contributions, including legal and mortgage services and construction materials, amounted to \$76,053 and \$189,963 for the years ended June 30, 2021 and 2020, respectively. Also, a substantial number of volunteers donate significant amounts of time to Habitat; however, no amounts have been reflected in the financial statements for these services since the donated services do not meet the above conditions for recognition under GAAP.

ReStore Donations

Donations accepted by the ReStore consist principally of surplus and salvage building materials and furniture. These donations are not recorded when received as the donated items do not have a readily determinable fair value at the time of the donation. Accordingly, Habitat recognizes ReStore revenue when the donated items are sold.

Sales of Completed Houses

Sales to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. The non-interest bearing mortgages Habitat holds are discounted at inception based upon market interest rates for similar mortgages as supplied each June 30th by HFHI. Discount rates applied to the mortgages Habitat currently holds range from 7.23% to 8.55%. A discount rate of 7.23% was applied to mortgages originated during the year ended June 30, 2021 and a discount rate of 7.38% was applied to mortgages originated during the year ended June 30, 2020. Discounts are amortized over the lives of the mortgages using the effective interest method. No amounts have been provided as an allowance for uncollectible notes as the fair value of the collateral (homes sold) exceeds the amounts of the discounted notes and estimated costs associated with foreclosure.

Habitat has entered into an agreement with a local financial institution to undertake a collaborative loan program whereby the financial institution will provide direct loans to certain homeowners in conjunction with Habitat's mission to build affordable housing for low-income individuals. Loans under this program will differ in certain ways from the loans Habitat has historically provided in that the eligibility requirements are different and the loans will be interest bearing at a rate of 2%. Only a portion of the total homes constructed and sold by Habitat in a given year will be eligible for this program and they will be limited based on mutually agreed upon annual maximum loans allowed. If a loan under this program goes into default and is subject to foreclosure procedures, Habitat has agreed to either bid on the property at the foreclosure sale until it is the successful bidder, unless a separate third party is the successful bidder, or Habitat will take assignment of the financial institution's bid in the event that the financial institution is the successful bidder at the foreclosure sale. This agreement will remain in effect on a year to year basis for future program loans, but not existing program loans, unless terminated by either party in a mutually agreed upon manner. During the year ended June 30, 2021, one loan was originated with the financial institution mentioned above. During the year ended June 30, 2020, four loans were originated with the financial institution mentioned above.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated between the programs and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. The primary expenses that are allocated include utilities and depreciation, which are allocated on a square footage basis, as well as salaries, payroll taxes, and employee benefits, which are allocated on the basis of time and effort.

Advertising Costs

Advertising costs, included in publicity in the accompanying statements of functional expenses, are expensed as incurred.

Income Tax Status

Habitat is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

Habitat's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that Habitat has no uncertain tax positions that would be subject to change upon examination.

Habitat is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. Habitat is also required to file an exempt organization business income tax return (Form 990-T) for any year unrelated business income exceeds \$1,000. Habitat's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Habitat has evaluated its subsequent events (events occurring after June 30, 2021) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE C: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,356,739	\$ 1,070,895
Promises to give, net	46,500	186,542
Grants and other receivables	98,996	60,857
Non-interest bearing mortgage notes receivable, net	5,598,905	5,718,398
Beneficial interest in assets held by others	<u>382,014</u>	<u>300,913</u>
 Total financial assets	 7,483,154	 7,337,605
 Less those unavailable for general expenditure within one year due to:		
Noncurrent portion of non-interest bearing notes receivable, net	(4,741,933)	(4,838,116)
Purpose restrictions	(323,186)	(347,551)
Beneficial interest in assets held by others	<u>(382,014)</u>	<u>(300,913)</u>
 Financial assets available to meet cash needs for general expenditure within one year	 <u>\$ 2,036,021</u>	 <u>\$ 1,851,025</u>

Habitat has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Habitat has a \$150,000 line of credit available to draw upon, if needed.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE D: FAIR VALUE MEASUREMENTS

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value are categorized depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 3 inputs are unobservable for the asset or liability, including Habitat's own assumptions in determining the fair value of assets or liabilities.

Valuation techniques used in the fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Habitat believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

The following is a description of the valuation methodologies used by Habitat for assets measured at fair value:

Beneficial Interest In Assets Held By Others: Equities and fixed income funds within the Winston-Salem Foundation (the Foundation) endowment pool are valued at the closing price reported on the active markets on which the individual securities are traded. Although the measurement is based on the unadjusted fair value of trust assets reported by the Foundation, Habitat has irrevocably assigned the monies to the Foundation and is only able to redeem accumulated income that the Foundation has transferred to the grantable funds account within the endowment. Therefore, Habitat considers the measurement of its beneficial interest in assets held by others to be a Level 3 measurement within the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, Habitat's assets measured at fair value on a recurring basis as of June 30, 2021 and 2020:

	Level 1	Level 2	Level 3	Total
<u>2021</u>				
Beneficial interest in assets held by others	\$ -	\$ -	\$ 382,014	\$ 382,014
<u>2020</u>				
Beneficial interest in assets held by others	\$ -	\$ -	\$ 300,913	\$ 300,913

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D: FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in the fair value of Habitat's level 3 assets for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 300,913	\$ 321,537
Contributions	34,924	-
Change in value	71,297	(7,421)
Distributions	<u>(25,120)</u>	<u>(13,203)</u>
Balance, end of year	<u>\$ 382,014</u>	<u>\$ 300,913</u>

NOTE E: PROMISES TO GIVE

In connection with various campaigns, Habitat solicited promises to give to help fund various initiatives. Promises to give were sought to sponsor the annual fund, specific house construction, and the Blueprint Breakfast event to help fund construction for multiple years.

As of June 30, 2021, unconditional promises to give consist of the following:

Blueprint Breakfast	\$ 10,000
House Sponsors	25,000
Other	<u>12,500</u>
	<u>\$ 47,500</u>

As of June 30, 2021, unconditional promises to give are expected to be realized in the following periods:

Due within one year	\$ <u>47,500</u>
Total unconditional promises to give	47,500
Less:	
Allowance for uncollectible promises to give	<u>(1,000)</u>
	<u>\$ 46,500</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F: NON-INTEREST BEARING MORTGAGE NOTES RECEIVABLE

A summary of mortgage notes is as follows at June 30:

	<u>2021</u>	<u>2020</u>
Various non-interest bearing mortgage notes which are due in monthly installments of approximately \$75,000	\$ 10,088,695	\$ 10,099,731
Less discounts	<u>(4,489,790)</u>	<u>(4,381,333)</u>
	<u>\$ 5,598,905</u>	<u>\$ 5,718,398</u>

A portion of the above mortgage notes receivable is pledged as collateral, securing the loans described in Note I and Note J.

In general, each homeowner signs several promissory notes. The first mortgage note payable to Habitat; non-interest bearing, due in monthly installments over a term ranging from 20-30 years; secured by a first deed of trust on the home with an average value of \$125,000. The average value of first mortgages was \$109,622. Some of the loans made also included a loan to the North Carolina Housing Finance Agency (NCHFA). When applied for, Habitat receives \$15,000 - \$45,000 from NCHFA after closing a loan with the homeowner. Habitat collects the full mortgage payment and remits the NCHFA portion monthly. See additional information on NCHFA notes payable in Note J. Owner must occupy as principal residence; if sold, refinanced or otherwise encumbered within ten years, then, in addition to the balance of the note, a share of appreciation in value shall be payable to Habitat, based upon a defined formula in the deed. The deed of trust grants Habitat the right of first refusal to repurchase the property under the same terms and conditions as a bona fide offer to the homeowner.

Most new homes sold in Winston-Salem also have a mortgage note payable to the City of Winston-Salem representing its investment in the property for site preparation and infrastructure costs performed by Habitat; owner must occupy as principal residence, due upon sale or transfer of property; non-interest bearing; secured by deed of trust.

Habitat policy does not allow for total purchase price of homes to be greater than appraised value by an independent appraiser. Habitat policy does not allow for a profit to be realized on the sale of the homes.

Credit Quality Information

Habitat adheres to underwriting standards and qualifications endorsed by HFHI. Habitat requires a credit report at the time of application and prior to closing the loan, but the credit score does not determine the lending decision. Minimum underwriting standards allow for no more than \$2,000 in non-medical collections and no unsatisfied judgements against the applicant. Habitat requires a demonstrated ability to repay the loan.

Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure if homeowner mortgage payments are deemed seriously delinquent. Management does not believe any of the mortgage notes receivable to be impaired as of June 30, 2021 or 2020.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE F: NON-INTEREST BEARING MORTGAGE NOTES RECEIVABLE (CONTINUED)

Mortgage notes receivable balances that are considered past due as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
1 – 30 days past due	\$ 15,505	\$ 12,144
30 – 60 days past due	7,396	4,982
60 – 90 days past due	12,606	1,477
90+ days past due	<u>24,272</u>	<u>22,346</u>
 Total	 <u>\$ 59,779</u>	 <u>\$ 40,949</u>

NOTE G: PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Buildings	\$ 3,704,174	\$ 3,626,495
Office furniture and equipment	190,721	174,893
Construction equipment	491,481	482,131
ReStore furniture and equipment	83,603	67,104
Construction in progress	33,891	32,956
Leasehold improvements	56,659	24,638
Land	<u>919,361</u>	<u>919,361</u>
	5,479,890	5,327,578
Less accumulated depreciation	<u>(1,280,354)</u>	<u>(1,127,783)</u>
	 <u>\$ 4,199,536</u>	 <u>\$ 4,199,795</u>

Depreciation expense totaled \$162,066 and \$192,305 for the years ended June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE H: LOANS PAYABLE (PPP)

On April 17, 2020, Habitat received loan proceeds in the amount of \$292,200 under round one of the Paycheck Protection Program ("PPP"). On February 23, 2021, Habitat received \$292,545 under round two of the PPP. Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. The forgiveness amount may be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. Habitat believes it used PPP loan proceeds for purposes consistent with the PPP and obtained full forgiveness in November 2020 from the Small Business Administration for the round one PPP loan, but has not yet received forgiveness for the round two loan.

Habitat initially accounted for each loan in accordance with ASC 470, *Debt*, and will subsequently derecognize the debts when each debt is forgiven in accordance with ASC 405-20, *Liabilities: Extinguishments of Liabilities*. The amount forgiven under round one of the PPP is presented in the statement of activities for the year ended June 30, 2021, as a gain upon debt extinguishment. The amount forgiven for round two will be presented in the statement of activities for the year ended June 30, 2022 as a gain upon debt extinguishment.

NOTE I: NOTES PAYABLE

Notes payable are summarized as follows at June 30:

	<u>2021</u>	<u>2020</u>
Revolving line of credit with Truist Bank, limit of \$150,000, bank prime interest rate minus 0.375%, interest only monthly payments, unsecured. Matures in March 2023.	\$ -	\$ -
Note payable to Allegacy Federal Credit Union is secured by certain land and ReStore building, 3.65% interest rate, principal and interest payable in monthly payments of \$4,913 through September 2028, at which time any remaining balance of principal and accrued interest will be due in full.	760,497	789,736
Note payable to Truist Bank, 2.75% interest rate, principal and interest payable in monthly payments of \$673 through March 2022, secured by 2016 Isuzu truck.	11,051	13,775
Note payable to Truist Bank, 4.50% interest rate, principal and interest payable in monthly payments of \$639 through December 2022, secured by 2012 Mitsubishi truck.	5,989	18,089

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I: NOTES PAYABLE (CONTINUED)

	<u>2021</u>	<u>2020</u>
Note payable to Allegacy Federal Credit Union is secured by certain land and building, 3.65% interest rate, principal and interest payable in monthly payments of \$3,838 through March 2030, at which time any remaining balance of principal and accrued interest will be due in full.	629,900	650,000
Note payable to Truist Bank. Total principal financed \$500,000, interest rate of U.S. Prime Rate less a margin of .375 percentage points, secured by certain land to be used for future construction projects. Interest paid monthly, principal payments of \$90,000 due June 30, 2020 and November 30, 2020, \$120,000 due June 30, 2021 and \$90,000 due November 30, 2021 with any remaining balance due on June 30, 2022.	<u>172,491</u>	<u>382,491</u>
	<u>\$ 1,579,928</u>	<u>\$ 1,854,091</u>

Habitat must comply with certain financial institution loan covenants. At June 30, 2021, Habitat was in compliance with all such covenants.

Future maturities of notes payable at June 30, 2021 are as follows:

2022	\$ 241,118
2023	61,118
2024	59,508
2025	61,718
2026	64,008
Thereafter	<u>1,092,458</u>
	<u>\$ 1,579,928</u>

Interest expense totaled \$66,322 and \$64,882 for the years ended June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE J: NON-INTEREST BEARING NOTES PAYABLE

For some of the mortgage notes receivable discussed in Note F, Habitat can apply for and receive a non-interest bearing note payable from the North Carolina Housing Finance Agency (NCHFA) for \$15,000 - \$45,000. The non-interest bearing notes payable are tied to specific mortgages and as Habitat collects the full monthly mortgage payments, a portion is remitted to NCHFA. Payments range from \$41 to \$150, and mature through June 2050. Interest rates used to discount the notes were determined based on market rates for similar types of notes on the origination dates. Rates consist of a range of 7.23% to 8.14%. Non-interest bearing notes payable are summarized as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Non-interest bearing notes payable	\$ 2,427,273	\$ 2,357,474
Less discount	<u>(1,126,539)</u>	<u>(1,083,440)</u>
Total	<u>\$ 1,300,734</u>	<u>\$ 1,274,034</u>

Future maturities of non-interest bearing notes payable as of June 30, 2021 are as follows:

2022	\$ 165,819
2023	165,819
2024	165,819
2025	155,926
2026	147,832
Thereafter	<u>1,626,058</u>
	<u>\$ 2,427,273</u>

NOTE K: LEASE COMMITMENTS

Habitat leases ReStore facilities, and certain office equipment under operating leases expiring through June 2026. Habitat also leased equipment under capital leases that expired in April 2020. Future minimum lease payments under non-cancellable leases with initial or remaining terms of one year or more are summarized as follows:

2022	\$ 188,788
2023	106,658
2024	96,000
2025	96,000
2026	<u>96,000</u>
Total minimum lease payments	<u>\$ 583,446</u>

Rent expense under all operating leases for the years ended June 30, 2021 and 2020 was \$136,288 and \$114,137, respectively.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE L: DEFINED CONTRIBUTION PLAN

Eligible employees are rewarded with retirement benefits under Habitat's 401(k) savings plan. Employees are eligible to participate in the plan if they have completed two months of service and have reached their twenty-first birthday. Under the plan, Habitat can, at its discretion, contribute an amount equal to a uniform percentage of participant salary deferrals. This percentage was set at 3% and 2% of eligible salary for the years ended June 30, 2021 and 2020, respectively. Habitat's contribution for the years ended June 30, 2021 and 2020 was \$28,740 and \$18,103, respectively.

NOTE M: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purposes and/or passage of time:		
House sponsorships	\$ 92,427	\$ 102,956
Youth empowerment program	40,000	31,018
Construction	132,864	136,000
ReStore distribution center	39,645	-
Blueprint breakfast promises to give	9,000	61,542
Other	9,250	16,035
	<u>323,186</u>	<u>347,551</u>
 Not subject to Habitat's spending policy or appropriation:		
Beneficial interest in assets held by others		
Jimmy Johnson scholarships	85,712	71,570
Held in perpetuity	97,459	51,521
	<u>183,171</u>	<u>123,091</u>
	<u>\$ 506,357</u>	<u>\$ 470,642</u>

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE N: RELATED PARTY TRANSACTIONS

There are members of the board of directors and finance committee who are also officers in local construction and construction supply companies. During the year ended June 30, 2021, Habitat made payments to the companies for building construction and construction supplies that totaled \$319,084. The amount owed to these companies included in accounts payable at June 30, 2021 totaled \$6,858. During the year ended June 30, 2020, Habitat made payments to the companies for building construction and construction supplies that totaled \$296,543. The amount owed to these companies and included in accounts payable at June 30, 2020 totaled \$9,060. Management believes these transactions were consummated on terms equivalent to those that prevail in arm's-length transactions.

NOTE O: CONCENTRATION OF RISK AND FUNDING

In accordance with its mission, Habitat sells homes to low-income persons in exchange for twenty to thirty year non-interest bearing notes. The notes are secured by first mortgages on the underlying real estate. The credit risk associated with these notes is not significant as the homes are sold at appraised value which approximates cost.

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
SUPPLEMENTAL SCHEDULE OF HOME BUILDING ACTIVITY
For the Year Ended June 30, 2021

	<u>Actual number of houses</u>	<u>Cost</u>	<u>Construction site</u>	<u>Percentage completed at June 30, 2021</u>
Houses under construction as of June 30, 2020; sold during the year ended June 30, 2021	8	\$ 808,016	1321 Thurmond St 1700 Burton St 1743 Richard Allen Lane 1799 Richard Allen Lane 241 W 23rd St. 2520 Ansonia St 2539 Ansonia St 4914 Old Rural Hall Rd	N/A
Houses started and sold during the year ended June 30, 2021	2	197,082	4952 Trent Hill Dr 4968 Trent Hill Dr	N/A
		<u>\$ 1,005,098</u>		
Houses under construction as of June 30, 2021; as yet unsold	6	<u>\$ 365,088</u>	1069 Kapp St 1087 Kapp St 2813 Ansonia St 1020 William Drive 3818 Hastings 1080 Kapp St	95% 80% 70% 72% 32% 1%

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
SUPPLEMENTAL SCHEDULE OF HOME BUILDING ACTIVITY
For the Year Ended June 30, 2020

	<u>Actual number of houses</u>	<u>Cost</u>	<u>Construction site</u>	<u>Percentage completed at June 30, 2020</u>
Houses under construction as of June 30, 2019; sold during the year ended June 30, 2020	5	\$ 597,664	1751 Richard Allen Lane 1746 Burton St. 937 Pittsburg Ave 1730 Burton St. 2554 Manchester Ave	N/A
Houses started and sold during the year ended June 30, 2020	6	588,680	2376 Greenway Ave 1638 Burton St. 1140 W 11th St. 1720 Richard Allen Lane 1716 Burton St. 1775 Richard Allen Lane	N/A
		<u>\$ 1,186,344</u>		
Houses under construction as of June 30, 2020; as yet unsold	8	<u>\$ 434,933</u>	1321 Thurmond St. 241 W 23rd St. 2520 Ansonia St 4914 Old Rural Hall Rd 1743 Richard Allen 1700 Burton St 1799 Burton St 2539 Asonia St	100% 93% 94% 78% 41% 37% 6% 4%