HABITAT FOR HUMANITY
OF
FORSYTH COUNTY, INC.

Financial Statements

June 30, 2023 and 2022

TABLE OF CONTENTS

BUTLER BURKE LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Forsyth County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the financial position of Habitat for Humanity of Forsyth County, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Forsyth County, Inc. 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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, including omissions, 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 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 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 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 Habitat for Humanity of Forsyth County, Inc.'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Forsyth County, Inc.'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 audit.

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 27 – 28 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 auditing standards generally accepted in the United States of America. 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
December 19, 2023

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 745,507	$ 885,078
Certificate of deposit	67,951	-
Promises to give, net	1,250	35,178
Grants receivable	52,282	14,800
Other receivables	73,480	110,989
Non-interest bearing mortgage notes receivable, net	5,249,432	5,295,399
Real estate held for sale and development	1,176,716	624,020
Houses under construction	657,187	565,883
Property and equipment, net	3,940,192	4,097,918
Operating lease right-of-use assets	1,740,181	-
Beneficial interest in assets held by others	351,619	342,767
Other assets	129,955	151,112
TOTAL ASSETS	$ 14,185,752	$ 12,123,144
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 289,397	$ 261,220
Operating lease liabilities	1,761,710	-
Notes payable	1,379,303	1,335,990
Non-interest bearing notes payable, net	1,227,063	1,203,473
Total Liabilities	4,657,473	2,800,683
Net Assets		
Without Donor Restrictions		
Undesignated	6,168,384	6,061,411
Net investment in property and equipment	2,660,890	2,761,928
Designated for endowment	189,994	181,626
	9,019,268	9,004,965
With Donor Restrictions	509,011	317,496
Total Net Assets	9,528,279	9,322,461
TOTAL LIABILITIES AND NET ASSETS	$ 14,185,752	$ 12,123,144

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 405,855	$ 126,200	$ 532,055
Grants	30,000	141,474	171,474
Blueprint breakfast	-	28,510	28,510
House sponsor donations	-	615,043	615,043
In-kind contributions	72,222	-	72,222
Government contracts	862,163	-	862,163
Sale of completed houses (net of discounts of $622,942)	1,006,258	-	1,006,258
Amortization of mortgage discount	481,282	-	481,282
ReStore sales	2,447,040	-	2,447,040
Change in value of beneficial interest	8,367	7,200	15,567
Other income	240,697	-	240,697
	5,553,884	918,427	6,472,311
Net assets released from restrictions			
Satisfaction of purpose restrictions	726,912	(726,912)	-
Total Support and Revenue	6,280,796	191,515	6,472,311
EXPENSES			
Program services			
Construction, volunteer and family services	3,220,786	-	3,220,786
ReStore	2,330,653	-	2,330,653
Management and general	418,266	-	418,266
Fundraising	283,957	-	283,957
Total Expenses	6,253,662	-	6,253,662
CHANGE IN NET ASSETS	27,134	191,515	218,649
Net Assets, Beginning of Year	9,004,965	317,496	9,322,461
Cumulative Effect Adjustment Due to Adoption of New Lease Standard	(12,831)	-	(12,831)
Net Assets, End of Year	$ 9,019,268	$ 509,011	$ 9,528,279

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 454,017	$ -	$ 454,017
Grants	62,983	121,276	184,259
House sponsor donations	-	446,717	446,717
In-kind contributions	100,340	-	100,340
Government contracts	138,200	-	138,200
Sale of completed houses (net of discounts of $394,131)	922,869	-	922,869
Amortization of mortgage discount	564,920	-	564,920
ReStore sales	2,589,732	-	2,589,732
Change in value of beneficial interest	(17,219)	(15,407)	(32,626)
Gain upon debt extinguishment	292,545	-	292,545
Other income	196,800	-	196,800
	5,305,187	552,586	5,857,773
Net assets released from restrictions			
Satisfaction of purpose restrictions	741,447	(741,447)	-
Total Support and Revenue	6,046,634	(188,861)	5,857,773
EXPENSES			
Program services			
Construction, volunteer and family services	2,945,918	-	2,945,918
ReStore	2,299,817	-	2,299,817
Management and general	395,234	-	395,234
Fundraising	291,602	-	291,602
Total Expenses	5,932,571	-	5,932,571
CHANGE IN NET ASSETS	114,063	(188,861)	(74,798)
Net Assets, Beginning of Year	8,890,902	506,357	9,397,259
Net Assets, End of Year	$ 9,004,965	$ 317,496	$ 9,322,461

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services					
	Construction, Volunteer and Family Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Building lots, materials and supplies (including $21,051 of donated construction materials)	$ 1,627,711	$ -	$ 1,627,711	$ -	$ -	$ 1,627,711
Other donated materials and services	51,171	-	51,171	-	-	51,171
Salaries and benefits	952,917	1,150,657	2,103,574	245,715	203,303	2,552,592
Lease costs	14,114	252,603	266,717	2,173	2,061	270,951
Repairs and maintenance	50,231	70,451	120,682	65,779	-	186,461
Travel and vehicle	17,066	170,922	187,988	-	-	187,988
Insurance	48,715	23,126	71,841	2,724	3,843	78,408
Publicity	11,713	11,193	22,906	213	7,384	30,503
Office expense	12,846	42,731	55,577	58	14,261	69,896
Utilities	23,250	47,435	70,685	7,637	-	78,322
Tithe to HFH International	31,000	-	31,000	-	-	31,000
Interest	36,103	26,577	62,680	-	-	62,680
Amortization of discount on non-interest bearing notes payable	99,846	-	99,846	-	-	99,846
Depreciation	54,060	81,960	136,020	8,492	8,818	153,330
Volunteer expense	27,106	-	27,106	1,791	-	28,897
Professional fees	208	-	208	22,251	-	22,459
Blueprint breakfast	-	-	-	-	8,895	8,895
Other	162,729	452,998	615,727	61,433	35,392	712,552
	$ 3,220,786	$ 2,330,653	$ 5,551,439	$ 418,266	$ 283,957	$ 6,253,662

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	Program Services					
	Construction, Volunteer and Family Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Building lots, materials and supplies (including $33,022 of donated construction materials)	$ 1,383,901	$ -	$ 1,383,901	$ -	$ -	$ 1,383,901
Other donated materials and services	67,318	-	67,318	-	-	67,318
Salaries and benefits	897,118	1,199,813	2,096,931	213,188	197,002	2,507,121
Lease costs	-	225,206	225,206	-	-	225,206
Repairs and maintenance	36,084	82,851	118,935	71,484	-	190,419
Travel and vehicle	16,690	59,517	76,207	-	-	76,207
Insurance	42,359	22,497	64,856	2,724	3,192	70,772
Publicity	-	33,518	33,518	1,155	9,592	44,265
Office expense	33,771	48,022	81,793	1,925	35,880	119,598
Utilities	25,659	46,995	72,654	5,963	-	78,617
Tithe to HFH International	38,700	-	38,700	-	-	38,700
Interest	26,160	26,522	52,682	-	-	52,682
Amortization of discount on non-interest bearing notes payable	142,153	-	142,153	-	-	142,153
Depreciation	61,919	87,994	149,913	8,653	9,254	167,820
Volunteer expense	12,280	-	12,280	344	-	12,624
Professional fees	2,488	-	2,488	23,465	-	25,953
Provision for uncollectible pledges	-	-	-	-	7,000	7,000
Other	159,318	466,882	626,200	66,333	29,682	722,215
	$ 2,945,918	$ 2,299,817	$ 5,245,735	$ 395,234	$ 291,602	$ 5,932,571

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	$ 218,649	$ (74,798)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	153,330	167,820
Amortization on operating leases	188,655	-
Issuance of non-interest bearing mortgage loans	(1,330,080)	(774,200)
Discounts on newly issued non-interest bearing mortgage loans	816,973	466,415
Amortization of mortgage discounts	(481,282)	(564,920)
Amortization of discounts on non-interest bearing notes payable	99,846	142,153
Discounts on current year non-interest bearing notes payable	(194,031)	(72,284)
Provision for uncollectible promises to give	5,654	7,000
Change in value of beneficial interest	(15,567)	32,626
Gain upon debt extinguishment	-	(292,545)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Promises to give	28,274	4,322
Grants receivable	(37,482)	(14,800)
Other receivables	37,509	(11,993)
Non-interest bearing mortgage notes receivable	1,040,356	1,176,211
Houses under construction	(53,199)	(200,795)
Real estate held for sale and development	(552,696)	50,596
Other assets	21,157	16,185
Increase (decrease) in:		
Accounts payable and accrued expenses	28,177	(58,005)
Operating lease liabilities	(179,957)	-
Net Cash Used in Operating Activities	(205,714)	(1,012)
INVESTING ACTIVITIES		
Purchase of property and equipment	(33,709)	(66,202)
Purchase of certificate of deposit	(67,951)	-
Beneficial interest distributions	6,715	6,621
Net Cash Used in Investing Activities	(94,945)	(59,581)

	2023	2022
FINANCING ACTIVITIES		
Principal payments on notes payable	(156,687)	(243,938)
Payments on non-interest bearing notes payable	(197,225)	(287,130)
Proceeds from note payable	200,000	-
Proceeds from current year non-interest bearing notes payable	315,000	120,000
Net Cash Provided by (Used in) Financing Activities	161,088	(411,068)
Change in Cash and Cash Equivalents	(139,571)	(471,661)
Cash and Cash Equivalents, Beginning of Year	885,078	1,356,739
Cash and Cash Equivalents, End of Year	$ 745,507	$ 885,078
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 62,538	$ 52,940

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.

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 accounting principles generally accepted in the United States of America (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.

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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Certificate of Deposit

Habitat has a certificate of deposit with a local financial institution with an original maturity of thirteen months maturing in April 2024.

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. No allowance for uncollectible promises to give was considered necessary at June 30, 2023 or 2022. 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, 2023 or 2022.

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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $351,619 and $342,767 as of June 30, 2023 and 2022, 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.

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. 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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 7.85% was applied to mortgages originated during the year ended June 30, 2023 and a discount rate of 7.49% was applied to mortgages originated during the year ended June 30, 2022. 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, 2023, two loans were originated with the financial institution mentioned above. During the year ended June 30, 2022, four loans were originated with the financial institution mentioned above.

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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023) 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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Adopted in the Current Year

Lease Arrangements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases (Topic 842). This guidance requires the rights and obligations of new and existing lease arrangements to be recognized as assets and liabilities in the statement of financial position. The guidance also requires disclosures to better inform financial statement users of the amount, timing and uncertainty of cash flows arising from leases. The primary impact of this guidance, which is effective for periods beginning after December 15, 2021, will be to record right-of-use (ROU) assets and obligations for current operating leases. Habitat elected to adopt the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption under ASU No. 2018-11, Leases (Topic 842) – *Targeted Improvements.* The adoption resulted in the recognition of operating ROU assets of $927,846 as well as operating lease liabilities of $940,677 as of July 1, 2022. As a result, a cumulative effect adjustment to decrease the opening balance of net assets by $12,831 was required.

In order to ease the transition process in the year of implementation, Habitat has elected to adopt the package of practical expedients available in the year of adoption provided in ASU 2016-02 and has elected not to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the ROU assets.

Habitat has made the accounting policy election not to separate lease components from non-lease components, but rather will account for the components as a single lease component.

Habitat has made the accounting policy election to not apply the recognition requirements of Topic 842 for short-term leases for all existing and future short-term leases for all classes of underlying assets. A short-term lease is defined as a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

Finally, Habitat has adopted ASU 2021-09, Leases (Topic 842) – *Discount Rate for Lessees That Are Not Public Business Entities*, which provides for more flexibility in determining discount rates for leases and allows for a risk-free rate election. In the absence of a rate implicit in a lease, an incremental borrowing rate or risk-free rate may be used to determine the initial carrying value of the lease liability. Habitat has elected to use the risk-free rate for periods comparable to lease terms for all classes of underlying assets. The risk-free rate is the rate of a zero-coupon U.S. Treasury instrument.

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:

	2023	2022
Cash and cash equivalents	**$ 745,507**	**$ 885,078**
Certificate of deposit	**67,951**	**-**
Promises to give, net	**1,250**	**35,178**
Grants and other receivables	**125,762**	**125,789**
Non-interest bearing mortgage notes receivable, net	**5,249,432**	**5,295,399**
Beneficial interest in assets held by others	**351,619**	**342,767**
Total financial assets	**6,541,521**	**6,684,211**
Less those unavailable for general expenditure within one year due to:		
Noncurrent portion of non-interest bearing notes receivable, net	**(4,478,236)**	**(4,556,644)**
Purpose restrictions	**(347,383)**	**(156,354)**
Beneficial interest in assets held by others	**(351,619)**	**(342,767)**
Financial assets available to meet cash needs for general expenditure within one year	**$ 1,364,283**	**$ 1,628,446**

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 $250,000 line of credit available to draw upon, if needed.

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 I 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, 2023 and 2022:

	Level 1	Level 2	Level 3	Total
2023				
Beneficial interest in assets held by others	**$ -**	**$ -**	**$ 351,619**	**$ 351,619**
2022				
Beneficial interest in assets held by others	**$ -**	**$ -**	**$ 342,767**	**$ 342,767**

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, 2023 and 2022:

	2023	2022
Balance, beginning of year	$ 342,767	$ 382,014
Change in value	15,567	(32,626)
Distributions	(6,715)	(6,621)
Balance, end of year	$ 351,619	$ 342,767

NOTE E: PROMISES TO GIVE

As of June 30, 2023, unconditional promises to give totaling $1,250 are expected to be realized within one year.

NOTE F: NON-INTEREST BEARING MORTGAGE NOTES RECEIVABLE

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

	2023	2022
Various non-interest bearing mortgage notes which are due in monthly installments of approximately $60,000	$ 9,976,408	$ 9,686,684
Less discounts	(4,726,976)	(4,391,285)
	$ 5,249,432	$ 5,295,399

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

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 of 30 years; secured by a first deed of trust on the home with an average value of $179,727. The average value of first mortgages was $147,200. 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 I. 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.

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

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.

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, 2023 or 2022.

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

	2023	2022
1 – 30 days past due	**$ 30,580**	**$ 15,904**
30 – 60 days past due	**13,586**	**7,757**
60 – 90 days past due	**11,113**	**12,426**
90+ days past due	**16,998**	**16,506**
Total	**$ 72,277**	**$ 52,593**

NOTE G: PROPERTY AND EQUIPMENT

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

	2023	2022
Buildings	$ 3,707,357	$ 3,707,357
Office furniture and equipment	196,551	196,551
Construction equipment	528,866	528,866
ReStore furniture and equipment	93,162	90,682
Construction in progress	-	38,104
Leasehold improvements	96,401	65,172
Land	919,361	919,361
	5,541,698	5,546,093
Less accumulated depreciation	(1,601,506)	(1,448,175)
	$ 3,940,192	$ 4,097,918

Depreciation expense totaled $153,330 and $167,820 for the years ended June 30, 2023 and 2022, respectively.

NOTE H: NOTES PAYABLE

Notes payable are summarized as follows at June 30:

	2023	2022
Revolving line of credit with Truist Bank, limit of $250,000, (increased from $150,000 as of October 2022), bank prime interest rate minus 0.375%, interest only monthly payments, unsecured. Matures in October 2024.	$ -	$ -
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.	696,651	729,163
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.	582,652	606,827

NOTE H: NOTES PAYABLE (CONTINUED)

	2023	2022
Unsecured note payable to Habitat for Humanity International. Total financed $200,000 with interest at 4.00%. Interest is paid monthly with all principal and accrued interest due as of December 31, 2023.	**100,000**	**-**
	$ 1,379,303	**$ 1,335,990**

Habitat must comply with certain financial institution loan covenants. At June 30, 2023, Habitat was in compliance with all such covenants.

Future maturities of notes payable at June 30, 2023 are as follows:

2024	**$ 159,508**
2025	**61,718**
2026	**64,008**
2027	**66,383**
2028	**68,848**
Thereafter	**958,838**
	$ 1,379,303

Interest expense totaled $62,680 and $52,682 for the years ended June 30, 2023 and 2022, respectively.

NOTE I: 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 $133, and mature through June 2053. 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:

	2023	2022
Non-interest bearing notes payable	$ 2,377,917	$ 2,260,143
Less discount	(1,150,854)	(1,056,670)
Total	$ 1,227,063	$ 1,203,473

Future maturities of non-interest bearing notes payable as of June 30, 2023 are as follows:

2024	$ 159,732
2025	147,171
2026	137,271
2027	130,852
2028	119,941
Thereafter	1,682,950
	$ 2,377,917

NOTE J: LEASES

Habitat leases ReStore facilities under operating leases. The leases, including anticipated renewal options, expire through October 2034. The lease assets and liabilities were calculated utilizing the risk-free discount rate, according to Habitat's elected policy. Habitat also leases other ReStore space and office equipment under short-term lease arrangements.

Total right-of-use assets and liabilities at June 30, 2023 are classified as follows in the statement of financial position:

Lease assets -	
Operating lease right-of-use assets	$ 1,740,181
Lease liabilities -	
Operating lease liabilities	$ 1,761,710

NOTE J: LEASES (CONTINUED)

Total lease costs for the year ended June 30, 2023 are as follows:

Operating lease costs	**$ 188,655**
Short-term lease costs	
ReStore facilities	**63,948**
Equipment	**18,348**
Total lease costs	**$ 270,951**

Rent expense under all operating leases totaled $225,206 for the year ended June 30, 2022.

The following summarizes the weighted-average discount rate and remaining lease term as of June 30, 2023:

Weighted average discount rate	**2.66%**
Weighted average remaining lease term	**9.6 years**

Future minimum lease payments required under operating leases that have an initial or remaining non-cancelable lease terms in excess of one year are as follows at each June 30:

2024	**$ 203,357**
2025	**206,282**
2026	**208,057**
2027	**219,782**
2028	**220,757**
Therafter	**956,621**
Total lease payments	**2,014,856**
Less imputed interest	**(253,146)**
Total lease obligations	**$ 1,761,710**

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	**$ 179,957**

NOTE K: 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 4% of eligible salary for the years ended June 30, 2023 and 2022, respectively. Habitat's contribution for the years ended June 30, 2023 and 2022 was $35,864 and $40,887, respectively.

NOTE L: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Subject to expenditure for specified purposes:		
House sponsorships	$ 187,630	$ 72,762
Youth empowerment program	25,000	-
Construction	63,908	39,272
ReStore distribution center	39,645	39,645
Van purchase	30,000	-
Other	1,200	4,675
	347,383	156,354
Not subject to Habitat's spending policy or appropriation:		
Beneficial interest in assets held by others		
Jimmy Johnson scholarships	75,763	75,481
Held in perpetuity	85,865	85,661
	161,628	161,142
	$ 509,011	$ 317,496

NOTE M: IN-KIND CONTRIBUTIONS

Habitat received the following in-kind contributions for the years ended June 30:

	2023	2022
Construction materials	$ 21,051	$ 33,022
Professional services	51,171	67,318
	$ 72,222	$ 100,340

Habitat receives contributions of construction materials to help in the construction of homes. These are based on current market rates for construction materials.

Habitat was also provided legal and mortgage servicing services at no cost. These are based on current market rates for these various services.

All in-kind contributions received by Habitat for the years ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by Habitat as determined by the board of directors and management.

NOTE N: RELATED PARTY TRANSACTIONS

In 2022 and prior, there were members of the board of directors and finance committee who were also officers in local construction and construction supply companies that Habitat purchased supplies. For the year ended June 30, 2023, this was no longer the case. During the year ended June 30, 2022, Habitat made payments to the companies for building construction and construction supplies that totaled $334,691. The amount owed to these companies and included in accounts payable at June 30, 2022 totaled $29,291. 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 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.

	Actual number of houses	Cost	Construction site	Percentage completed at June 30, 2023
Houses under construction as of June 30, 2022; sold during the year ended June 30, 2023	10	$ 1,485,720	1045 Kapp St	N/A
			1050 Kapp St	
			1059 Kapp St	
			1060 Kapp St	
			208 W 23rd St	
			2705 Ansonia St	
			4563 Stone Hill Dr	
			4531 Stone Hill Dr	
			1253 N Jackson St	
			4564 Stone Hill Dr	
Houses started and sold during the year ended June 30, 2023	1	141,991	4550 Stone Hill Dr	N/A
		$ 1,627,711		
Houses under construction as of June 30, 2023; as yet unsold	7	$ 657,187	1040 Kapp St	91%
			1070 Kapp St	88%
			879 W 12th St	80%
			1629 14th St	61%
			1079 Kapp St	61%
			528 Barbara Jane Ave	40%
			1508 E 24th St	17%

HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.
SUPPLEMENTAL SCHEDULE OF HOME BUILDING ACTIVITY
For the Year Ended June 30, 2022

	Actual number of houses	Cost	Construction site	Percentage completed at June 30, 2022
Houses under construction as of June 30, 2021; sold during the year ended June 30, 2022	6	$ 825,153	1069 Kapp St	N/A
			1087 Kapp St	
			1080 Kapp St	
			2813 Ansonia St	
			1020 William Drive	
			3818 Hastings	
Houses started and sold during the year ended June 30, 2022	4	558,748	4582 Stone Hill Dr	N/A
			4547 Stone Hill Dr	
			1725 Burton St	
			1456 Emerald St	
		$ 1,383,901		
Houses under construction as of June 30, 2022; as yet unsold	11	$ 565,883	1040 Kapp St	4%
			1045 Kapp St	83%
			1050 Kapp St	19%
			1059 Kapp St	99%
			1060 Kapp St	27%
			4564 Stone Hill Dr	5%
			1253 N Jackson St	25%
			208 W 23rd St	57%
			2705 Ansonia St	77%
			4563 Stone Hill Dr	20%
			4531 Stone Hill Dr	3%