

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

**Financial Statements**

**June 30, 2018 and 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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 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 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 30, 2018

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,211,607	\$ 822,026
Pledges receivable, net	91,372	161,577
Grants receivable	281,500	751,713
Other receivables	42,174	168,912
Non-interest bearing mortgage notes receivable, net	5,986,828	6,103,132
Real estate held for sale and development	363,307	390,861
Houses under construction	261,616	395,326
Property and equipment, net	4,348,153	4,485,509
Beneficial interest in assets held by others	307,283	296,316
Other assets	<u>111,449</u>	<u>73,186</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 13,005,289</u></b>	<b><u>\$ 13,648,558</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 212,196	\$ 228,517
Notes payable	1,653,975	1,838,346
Capital lease obligations	12,040	22,263
Non-interest bearing notes payable, net	<u>1,288,517</u>	<u>1,261,420</u>
<b><u>Total Liabilities</u></b>	<b><u>3,166,728</u></b>	<b><u>3,350,546</u></b>
<b>Net Assets</b>		
<b>Unrestricted</b>		
Undesignated	4,275,043	4,391,616
Net investment in property and equipment	4,348,153	4,485,509
Designated for endowment	<u>174,104</u>	<u>163,111</u>
	8,797,300	9,040,236
Temporarily restricted	981,785	1,198,300
Permanently restricted	<u>59,476</u>	<u>59,476</u>
<b><u>Total Net Assets</u></b>	<b><u>9,838,561</u></b>	<b><u>10,298,012</u></b>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 13,005,289</u></b>	<b><u>\$ 13,648,558</u></b>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 211,229	\$ 12,573	\$ -	\$ 223,802
Grants	160,355	72,500	-	232,855
Hammerbird 5k	32,765	-	-	32,765
Golf tournament	39,986	-	-	39,986
Blueprint breakfast	-	109,394	-	109,394
House sponsor donations	35,781	284,214	-	319,995
Gifts-in-kind	154,478	-	-	154,478
Government contracts	154,240	-	-	154,240
Sale of completed houses (net of discounts of \$419,709)	549,767	-	-	549,767
Amortization of mortgage discount	529,229	-	-	529,229
ReStore sales	1,635,112	-	-	1,635,112
Unrealized gains on beneficial interest	17,012	5,971	-	22,983
Other income (loss)	179,860	(783)	-	179,077
	<u>3,699,814</u>	<u>483,869</u>	<u>-</u>	<u>4,183,683</u>
Net assets released from restrictions	<u>700,384</u>	<u>(700,384)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<b><u>4,400,198</u></b>	<b><u>(216,515)</u></b>	<b><u>-</u></b>	<b><u>4,183,683</u></b>
<b>EXPENSES</b>				
Program services				
Construction, volunteer and family services	2,809,374	-	-	2,809,374
ReStore	1,314,032	-	-	1,314,032
Management and general	203,354	-	-	203,354
Fundraising	316,374	-	-	316,374
<b>Total Expenses</b>	<b><u>4,643,134</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>4,643,134</u></b>
Change in Net Assets	(242,936)	(216,515)	-	(459,451)
Net Assets at Beginning of Year	<u>9,040,236</u>	<u>1,198,300</u>	<u>59,476</u>	<u>10,298,012</u>
Net Assets at End of Year	<u>\$ 8,797,300</u>	<u>\$ 981,785</u>	<u>\$ 59,476</u>	<u>\$ 9,838,561</u>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 295,645	\$ 54,100	\$ -	\$ 349,745
Grants	22,683	168,785	-	191,468
Hammerbird 5k	38,344	-	-	38,344
Golf tournament	67,226	-	-	67,226
Blueprint breakfast	57,310	78,483	-	135,793
House sponsor donations	323,265	86,020	-	409,285
Gifts-in-kind	149,442	-	-	149,442
Government contracts	285,164	-	-	285,164
Sale of completed houses (net of discounts of \$462,134)	621,143	-	-	621,143
Amortization of mortgage discount	576,096	-	-	576,096
ReStore sales	1,353,414	-	-	1,353,414
Unrealized gains on beneficial interest	22,311	7,954	-	30,265
Other income (loss)	<u>208,061</u>	<u>(735)</u>	<u>-</u>	<u>207,326</u>
	4,020,104	394,607	-	4,414,711
Net assets released from restrictions	<u>832,747</u>	<u>(832,747)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<u>4,852,851</u>	<u>(438,140)</u>	<u>-</u>	<u>4,414,711</u>
<b>EXPENSES</b>				
Program services				
Construction, volunteer and family services	2,971,326	-	-	2,971,326
ReStore	1,081,061	-	-	1,081,061
Management and general	201,324	-	-	201,324
Fundraising	<u>302,442</u>	<u>-</u>	<u>-</u>	<u>302,442</u>
<b>Total Expenses</b>	<u>4,556,153</u>	<u>-</u>	<u>-</u>	<u>4,556,153</u>
Change in Net Assets	296,698	(438,140)	-	(141,442)
Net Assets at Beginning of Year	<u>8,743,538</u>	<u>1,636,440</u>	<u>59,476</u>	<u>10,439,454</u>
Net Assets at End of Year	<u>\$ 9,040,236</u>	<u>\$ 1,198,300</u>	<u>\$ 59,476</u>	<u>\$ 10,298,012</u>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2018**

	Program Services			Management and General	Fundraising	Total
	Construction, Volunteer and Family Services	ReStore	Total Program Services			
Building lots, materials and supplies (including \$110,539 of donated construction materials)	\$ 1,245,068	\$ -	\$ 1,245,068	\$ -	\$ -	\$ 1,245,068
Other donated materials and services	30,297	-	30,297	-	-	30,297
Salaries and benefits	863,226	752,748	1,615,974	100,738	181,024	1,897,736
Rent	-	102,000	102,000	-	-	102,000
Repairs and maintenance	50,638	31,619	82,257	30,964	-	113,221
Travel and vehicle	15,747	25,283	41,030	-	-	41,030
Insurance	25,507	18,291	43,798	3,835	4,305	51,938
Publicity	2,331	28,438	30,769	473	8,879	40,121
Office expense	36,484	43,654	80,138	915	23,699	104,752
Utilities	27,361	48,064	75,425	5,550	-	80,975
Tithe to HFH International	30,500	-	30,500	-	-	30,500
Hammerbird 5k	-	-	-	-	11,933	11,933
Golf tournament	-	-	-	-	8,919	8,919
Blueprint breakfast	-	-	-	-	5,974	5,974
Interest	30,268	37,066	67,334	-	-	67,334
Amortization of discount on non-interest bearing notes payable	105,515	-	105,515	-	-	105,515
Depreciation	83,075	87,261	170,336	10,272	11,553	192,161
Volunteer expense	21,835	-	21,835	2,355	-	24,190
Professional fees	2,503	-	2,503	21,218	-	23,721
Provision for uncollectible pledges	-	-	-	-	32,620	32,620
Provision for uncollectible grants	65,000	-	65,000	-	-	65,000
Other	174,019	139,608	313,627	27,034	27,468	368,129
	<u>\$ 2,809,374</u>	<u>\$ 1,314,032</u>	<u>\$ 4,123,406</u>	<u>\$ 203,354</u>	<u>\$ 316,374</u>	<u>\$ 4,643,134</u>



**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2017**

	Program Services			Management and General	Fundraising	Total
	Construction, Volunteer and Family Services	ReStore	Total Program Services			
Building lots, materials and supplies (including \$90,367 of donated construction materials)	\$ 1,485,646	\$ -	\$ 1,485,646	\$ -	\$ -	\$ 1,485,646
Other donated materials and services	32,999	-	32,999	-	-	32,999
Salaries and benefits	874,749	579,312	1,454,061	105,919	187,586	1,747,566
Rent	-	54,000	54,000	-	-	54,000
Repairs and maintenance	81,812	18,020	99,832	24,779	-	124,611
Travel and vehicle	13,920	30,931	44,851	-	-	44,851
Insurance	24,264	17,207	41,471	6,188	1,603	49,262
Publicity	3,791	22,001	25,792	356	8,215	34,363
Office expense	34,702	38,513	73,215	2,578	23,948	99,741
Utilities	26,335	33,385	59,720	5,396	-	65,116
Tithe to HFH International	37,576	-	37,576	-	-	37,576
Hammerbird 5k	-	-	-	-	12,086	12,086
Golf tournament	-	-	-	-	10,691	10,691
Blueprint breakfast	-	-	-	-	3,531	3,531
Interest	31,994	34,553	66,547	-	-	66,547
Amortization of discount on non-interest bearing notes payable	110,084	-	110,084	-	-	110,084
Depreciation	72,993	89,077	162,070	10,262	11,971	184,303
Volunteer expense	21,940	-	21,940	3,055	-	24,995
Professional fees	9,344	-	9,344	20,678	-	30,022
Provision for uncollectible pledges	-	-	-	-	17,409	17,409
Other	109,177	164,062	273,239	22,113	25,402	320,754
	<u>\$ 2,971,326</u>	<u>\$ 1,081,061</u>	<u>\$ 4,052,387</u>	<u>\$ 201,324</u>	<u>\$ 302,442</u>	<u>\$ 4,556,153</u>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (459,451)	\$ (141,442)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	192,161	184,303
Issuance of non-interest bearing mortgage loans	(948,965)	(1,163,511)
Discounts on newly issued non-interest bearing mortgage loans	561,795	677,958
Amortization of mortgage discounts	(529,229)	(576,096)
Amortization of discounts on non-interest bearing notes payable	105,515	110,084
Discounts on current year non-interest bearing notes payable	(142,086)	(215,535)
Other non-cash donations of property and equipment	(1,830)	(11,445)
Discount on pledges receivable	-	5,627
Amortization of discount on pledges receivable	(3,766)	(2,000)
Other non-cash donations of real estate held for sale and development	(57,500)	(28,525)
Provision for uncollectible pledges	32,620	17,409
Provision for uncollectible grants	65,000	-
Unrealized gains on beneficial interest	(22,983)	(30,265)
Loss on disposal of property and equipment	59	125
Changes in operating assets and liabilities		
(Increase) decrease in:		
Pledges receivable	41,351	(12,510)
Grants receivable	405,213	(19,360)
Other receivables	126,738	(121,732)
Houses under construction	133,710	(76,432)
Real estate held for sale and development	85,054	61,536
Other assets	(38,263)	19,070
Increase (decrease) in:		
Accounts payable and accrued expenses	(16,321)	59,467
<u>Net Cash Used in Operating Activities</u>	<u>(471,178)</u>	<u>(1,263,274)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(53,034)	(120,094)
Mortgage payments received	1,032,703	1,102,652
Proceeds from sale of property and equipment	-	16,451
Beneficial interest additions, net of fees	3,016	2,793
Beneficial interest distributions	9,000	7,316
<u>Net Cash Provided by Investing Activities</u>	<u>991,685</u>	<u>1,009,118</u>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(184,371)	(250,149)
Payments on non-interest bearing notes payable	(176,332)	(175,882)
Proceeds from notes payable	-	37,623
Proceeds from current year non-interest bearing notes payable	240,000	365,000
Repayment of capital lease obligation	<u>(10,223)</u>	<u>(9,840)</u>
<u>Net Cash Used in Financing Activities</u>	<u>(130,926)</u>	<u>(33,248)</u>
 Increase (Decrease) in Cash and Cash Equivalents	 389,581	 (287,404)
Cash and Cash Equivalents at Beginning of Year	<u>822,026</u>	<u>1,109,430</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,211,607</u>	<u>\$ 822,026</u>
 <b><u>SUPPLEMENTAL INFORMATION:</u></b>		
Cash paid for interest	<u>\$ 67,113</u>	<u>\$ 66,543</u>

# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 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. The ReStore is a 23,000 plus square foot retail space that is operated by Habitat. It is open to the public and sells new and used furniture, building supplies, and creative merchandise for home improvements. The ReStore accepts donated goods from individuals and businesses. Another ReStore location opened in Kernersville, NC in 2016. A third ReStore location opened in Lewisville, NC in 2017. 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 Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), and accordingly reflect all significant receivables payables, and other liabilities.

#### Basis of Presentation

Habitat presents its net assets and its support and revenue based upon the absence or existence of donor-imposed restrictions as follows:

Unrestricted net assets – 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 unrestricted net assets.

Temporarily restricted net assets – net assets that contain donor-imposed time or purpose restrictions that have not currently been met.

Permanently restricted net assets – net assets that contain donor-imposed restrictions stipulating that amounts be maintained in perpetuity.

Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or purpose was satisfied) are reported as net assets released from restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized.

# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period the commitment is made and are initially recorded at fair value, which is computed as the estimated present values of expected future cash flows. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met.

#### 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 \$154,478 and \$149,442 for the years ended June 30, 2018 and 2017, respectively.

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.

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include all cash and certificates of deposit with an original maturity of three months or less.

#### 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.

## HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Beneficial Interest in Assets Held by Others (Endowment Funds)

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 \$307,283 and \$296,316 as of June 30, 2018 and 2017, respectively.

Habitat has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulations are added to the funds. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Habitat in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of Habitat. UPMIFA does not apply to board designated endowment funds, and accordingly the portion of the endowments attributed to board designation is reflected as unrestricted net assets.

*Funds with Deficiencies.* From time to time, the fair value of the assets associated with the donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Habitat to retain as funds of perpetual duration. In accordance with GAAP, deficiencies of this nature are first offset by any accumulated temporarily restricted net assets from the funds, with any remaining deficiency offsetting unrestricted net assets. Any reduction in unrestricted net assets due to deficiencies would be restored with future earnings before any earnings are accumulated in temporarily restricted net assets. The donor-restricted portion of the endowments had deficiencies of \$3,489 and \$3,275 at June 30, 2018 and 2017, respectively, reducing unrestricted net assets.

*Investment Return Objectives, Risk Parameters and Strategies.* Based on the nature of the endowments, the investment of the funds are determined by the Foundation rather than Habitat. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent rate of return that has sufficient liquidity to provide Habitat income while growing the funds if possible. Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes and strategies are managed by the Foundation.

# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Beneficial Interest in Assets Held by Others (Endowment Funds) (Continued)

*Spending Policy.* The Foundation makes quarterly distributions to Habitat or accumulated income funds within the endowments. Distribution amounts are determined by Foundation policy. The decision to take the distribution or accumulate in the income funds within the endowments are determined by Habitat's management consistent with the previously discussed standards of prudence prescribed by UPMIFA. Amounts distributed by the funds can be used by Habitat for operating purposes, however, consistent with UPMIFA and GAAP, Habitat reflects all investment income and changes in value of the donor restricted portion of the funds as temporarily restricted net assets until appropriated for expenditure by the Board of Directors (unless there is a fund deficiency as discussed above). All investment income and change in value of the board designated endowment fund is reflected as unrestricted net assets.

#### 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.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note N for assets of Habitat measured at fair value on a recurring basis.

#### 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 30<sup>th</sup> by HFHI. Discount rates applied to the mortgages Habitat currently holds range from 7.39% to 8.78%. A discount rate of 7.57% was applied to mortgages originated during the year ended June 30, 2018 and a discount rate of 7.47% was applied to mortgages originated during the year ended June 30, 2017. 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.

During the year ended June 30, 2018, Habitat completed its commitment for the NC State Employees Credit Union Challenge. Habitat built a home and SECU originated the mortgage. Proceeds to Habitat at the closing totaled \$99,000.

# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Sales of Completed Houses (Continued)

Subsequent to year end, Habitat 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.

#### Advertising Costs

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

#### Expense Allocation

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of Habitat.

#### 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.



# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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, 2018) 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.

#### New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations.

The following are the most significant changes to the standards:

- Only two classes of net assets are reported in the statement of financial position—net assets with donor restrictions and net assets without donor restrictions.
- All nonprofit organizations, not just voluntary health and welfare organizations, are required to present an analysis of expenses by both nature and function in one location.
- Nonprofit organizations are required to describe the methods used to allocate costs among the program and support functions.
- Nonprofit organizations are still permitted to report cash flows from operating activities using either the direct or the indirect methods. However, a reconciliation to the indirect method is no longer required when the direct method is used.
- Investment return is reported net of external and direct internal investment expenses on the statement of activities in the net asset category in which the net investment return is reported.
- The release of restrictions on donor-restricted gifts of cash or assets to be used to acquire or construct capital assets is recognized when the assets are placed in service, unless the donor places a time restriction on the use of the asset.
- Nonprofit organizations are required to provide more information about liquidity of its financial assets and how the availability of the financial assets is limited by donor-imposed restrictions, legal restrictions, and governing board designations.

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

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

New Accounting Pronouncement (Continued)

- Disclosures about designations of net assets made by the governing board are required.
- ASU 2016-14 defines the term *underwater endowment* and changes the net asset classification of the deficit when the fair value of the assets of an endowment is less than the original gift (or other amount that the organization must maintain in perpetuity).

The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

**NOTE C: CONCENTRATION OF RISK AND FUNDING**

The financial instruments that potentially subject Habitat to credit risk consist primarily of cash, mortgage notes receivable, unconditional promises to give, grants receivable and other receivables.

Habitat maintains cash with four major financial institutions. At times these accounts 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 risk.

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.

Unconditional promises to give, grants receivable and other receivables are by their nature, unsecured.

**NOTE D: PLEDGES RECEIVABLE**

In connection with various campaigns, Habitat solicited pledges to help fund various initiatives. These include a capital campaign to fund the construction of a new ReStore facility and support Neighborhood Revitalization, a comprehensive approach to impact a neighborhood by rehabilitation of vacant and foreclosed houses as well as minor repairs and weatherization to existing low income homeowners. Pledges were also sought to sponsor specific house construction as well as the Blueprint Breakfast event to help fund construction for multiple years.

Pledges are recorded in the period in which an unconditional pledge is made. Conditional pledges are recognized as gift income in the period in which the conditions are satisfied. Pledges receivable are recorded at the present value of estimated future cash flows with a discount rate of 1.89%. As of June 30, 2018, unconditional pledges consist of the following:

Capital Campaign	\$	7,000
Blueprint Breakfast		91,247
House Sponsors		<u>4,000</u>
	\$	<u>102,247</u>

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

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**NOTE D: PLEDGES RECEIVABLE (CONTINUED)**

As of June 30, 2018, unconditional pledges are expected to be realized in the following periods:

Due within one year	\$ 44,197
Due in one to five years	<u>58,050</u>
Total unconditional pledges	102,247
Less:	
Allowance for uncollectible pledges	(9,014)
Discount to present value	<u>(1,861)</u>
	<u>\$ 91,372</u>

**NOTE E: PROPERTY AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
Buildings	\$ 3,509,290	\$ 3,505,363
Office furniture and equipment	169,297	173,119
Construction equipment	395,747	392,205
ReStore furniture and equipment	67,104	64,323
Construction in progress	34,815	-
Land	<u>919,361</u>	<u>919,361</u>
	5,095,614	5,054,371
Less accumulated depreciation	<u>(747,461)</u>	<u>(568,862)</u>
	<u>\$ 4,348,153</u>	<u>\$ 4,485,509</u>

Depreciation expense totaled \$192,161 and \$184,303 for the years ended June 30, 2018 and 2017, respectively.

**NOTE F: NON-INTEREST BEARING MORTGAGE NOTES RECEIVABLE**

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

	<u>2018</u>	<u>2017</u>
Various non-interest bearing mortgage notes which are due in monthly installments of approximately \$80,000	\$ 10,362,533	\$ 10,446,271
Less discounts	<u>(4,375,705)</u>	<u>(4,343,139)</u>
	<u>\$ 5,986,828</u>	<u>\$ 6,103,132</u>

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

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

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

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 \$92,286. The average value of first mortgages was \$72,662. 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.

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, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
1 – 30 days past due	\$ 21,043	\$ 15,644
30 – 60 days past due	13,000	6,876
60 – 90 days past due	4,146	5,757
90+ days past due	<u>21,918</u>	<u>19,222</u>
<b>Total</b>	<u>\$ 60,107</u>	<u>\$ 47,499</u>

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

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**NOTE G: BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (ENDOWMENT FUNDS)**

Endowment net assets composition by type as of June 30, 2018 and 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>2018</u></b>				
Donor-restricted endowment	\$ (3,489)	\$ -	\$ 59,476	\$ 55,987
Board designated endowment	174,104	-	-	174,104
Other (Jimmy Johnson Fund)	-	77,192	-	77,192
	<u>\$ 170,615</u>	<u>\$ 77,192</u>	<u>\$ 59,476</u>	<u>\$ 307,283</u>
<b><u>2017</u></b>				
Donor-restricted endowment	\$ (3,275)	\$ -	\$ 59,476	\$ 56,201
Board designated endowment	163,111	-	-	163,111
Other (Jimmy Johnson Fund)	-	77,004	-	77,004
	<u>\$ 159,836</u>	<u>\$ 77,004</u>	<u>\$ 59,476</u>	<u>\$ 296,316</u>

Changes in endowment net assets during the years ended June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>2018</u></b>				
Endowment net assets, beginning of year	\$ 159,836	\$ 77,004	\$ 59,476	\$ 296,316
Interest and dividend income, net	(2,233)	(783)	-	(3,016)
Unrealized gains	17,012	5,971	-	22,983
Amounts appropriated for expenditure	(4,000)	(5,000)	-	(9,000)
Endowment net assets, end of year	<u>\$ 170,615</u>	<u>\$ 77,192</u>	<u>\$ 59,476</u>	<u>\$ 307,283</u>
<b><u>2017</u></b>				
Endowment net assets, beginning of year	\$ 139,583	\$ 77,101	\$ 59,476	\$ 276,160
Interest and dividend income, net	(2,058)	(735)	-	(2,793)
Unrealized gains	22,311	7,954	-	30,265
Amounts appropriated for expenditure	-	(7,316)	-	(7,316)
Endowment net assets, end of year	<u>\$ 159,836</u>	<u>\$ 77,004</u>	<u>\$ 59,476</u>	<u>\$ 296,316</u>

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

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**NOTE H: NOTES PAYABLE**

Notes payable are summarized as follows at June 30:

	<u>2018</u>	<u>2017</u>
Revolving line of credit with Branch Banking and Trust, limit of \$250,000, bank prime interest rate minus 0.375%, interest only monthly payments, unsecured. Matures in March 2019.	\$ -	\$ -
Note payable to Wells Fargo Bank, variable rate at LIBOR plus 2.3%, secured by certain land and ReStore building, with interest only payments until January 2015, at which time quarterly principal payments of \$35,000 will be made for 12 consecutive quarters, then changing to \$25,000 quarterly payments at January 2018 for 7 consecutive quarters through October 2019, at which time any remaining balance of accrued interest will be due in full. Subsequent to year end, this note was refinanced with Allegacy Federal Credit Union. The total principal financed as of September 28, 2018 was \$830,000. The note is secured by certain land and ReStore building, 4.35% interest rate, principal and interest payable in monthly payments of \$5,212 through September 2028, at which time any remaining balance of principal and accrued interest will be due in full.	862,293	982,293
Note payable to Branch Banking and Trust, 4.00% interest rate, principal and interest payable in monthly payments of \$2,644 through April 2020, secured by five work trucks.	56,438	85,479
Note payable to Branch Banking and Trust, 2.75% interest rate, principal and interest payable in monthly payments of \$673 through March 2022, secured by 2016 Isuzu truck.	28,106	35,285
Revolving construction note payable to Wells Fargo Bank, with a limit of \$782,000, 3.78% interest rate, secured by certain land and construction in progress, with interest only payments until 9/10/15 (conversion date), at which time no more advances will be allowed. Payment of \$4,671 due at conversion date with monthly interest and principal payments made thereafter, amortized over a twenty year term through March 2020, at which time any remaining balance of principal and accrued interest will be due in full.	<u>707,138</u>	<u>735,289</u>
	<u>\$ 1,653,975</u>	<u>\$ 1,838,346</u>

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

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**NOTE H: NOTES PAYABLE (CONTINUED)**

Habitat must comply with certain financial institution loan covenants. At June 30, 2018, Habitat was in compliance with, or had received waivers for, all such covenants.

Future maturities of notes payable at June 30, 2018 (after subsequent refinance mentioned above) are as follows:

2019	\$	112,415
2020		739,137
2021		36,911
2022		35,670
2023		31,733
Thereafter		<u>698,109</u>
	<u>\$</u>	<u>1,653,975</u>

Interest expense totaled \$67,334 and \$66,547 for the years ended June 30, 2018 and 2017, 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 \$150, and mature through February 2048. 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 7.39% to 8.14%. Non-interest bearing notes payable are summarized as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Non-interest bearing notes payable	\$ 2,377,218	\$ 2,313,550
Less discount	<u>(1,088,701)</u>	<u>(1,052,130)</u>
Total	<u>\$ 1,288,517</u>	<u>\$ 1,261,420</u>

Future maturities of non-interest bearing notes payable as of June 30, 2018 are as follows:

2019	\$	153,753
2020		153,753
2021		153,753
2022		153,753
2023		153,753
Thereafter		<u>1,608,453</u>
	<u>\$</u>	<u>2,377,218</u>

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

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**NOTE J: RESTRICTIONS ON NET ASSETS**

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

	<u>2018</u>	<u>2017</u>
<b>Purpose restricted:</b>		
House sponsorships	\$ 284,214	\$ 86,020
Capital campaign	105,379	232,974
Marketing manager	13,125	13,244
Jimmy Johnson scholarships	77,192	77,004
Construction	360,721	552,705
Training and surveys	-	26,770
Home repairs for veterans	-	17,500
Neighborhood revitalization	33,024	69,500
Americorps house renovation	15,185	-
Other	12,573	19,100
<b>Timing restricted:</b>		
Blueprint breakfast pledges	80,372	78,483
BB&T charitable contributions	-	<u>25,000</u>
	<u>\$ 981,785</u>	<u>\$ 1,198,300</u>

Permanently restricted net assets consist of endowment fund investments (beneficial interest) to be held indefinitely, the income from which is expendable for Habitat operations.

**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 is set at 2% of eligible salary. Habitat’s contribution for the years ended June 30, 2018 and 2017 was \$19,219 and \$17,377, respectively.



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

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**NOTE L: COMMITMENTS**

The principal commitments of Habitat are as follows:

Lease Commitments

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

	<u>Capital Leases</u>	<u>Operating Leases</u>
2019	\$ 7,681	\$ 69,340
2020	4,496	69,340
2021	-	33,340
2022	-	15,340
	<hr/>	<hr/>
Total minimum lease payments	12,177	<u>\$ 187,360</u>
Less amount representing interest	<u>(137)</u>	
Present value of net minimum lease payments	<u>\$ 12,040</u>	

Rent expense under all operating leases for the years ended June 30, 2018 and 2017 was \$117,340 and \$68,101, respectively.

**NOTE M: 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, 2018, Habitat made payments to the companies for building construction and construction supplies that totaled \$243,235. The amount owed to these companies included in accounts payable at June 30, 2018 totaled \$4,388. During the year ended June 30, 2017, Habitat made payments to the companies for building construction and construction supplies that totaled \$202,306. The amount owed to these companies and included in accounts payable at June 30, 2017 totaled \$29,974. Management believes these transactions were consummated on terms equivalent to those that prevail in arm's-length transactions.

# HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE N: FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. 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 accounts within the endowments. 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 methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Habitat believes the Foundation's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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**NOTE N: FAIR VALUE MEASUREMENTS (CONTINUED)**

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Beneficial interest in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,283</u>	<u>\$ 307,283</u>
<u>2017</u>				
Beneficial interest in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,316</u>	<u>\$ 296,316</u>

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:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 296,316	\$ 276,160
Interest and dividends, net	(3,016)	(2,793)
Unrealized gains	22,983	30,265
Distributions	<u>(9,000)</u>	<u>(7,316)</u>
Balance, end of year	<u>\$ 307,283</u>	<u>\$ 296,316</u>

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**SUPPLEMENTAL SCHEDULE OF HOME BUILDING ACTIVITY**  
**For the Year Ended June 30, 2018**

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	<u>Actual number of houses</u>	<u>Cost</u>	<u>Construction site</u>	<u>Percentage completed at June 30, 2018</u>
<b>Houses under construction as of June 30, 2017; sold during the year ended June 30, 2018</b>	8	\$ 747,255	1915 Short St 1921 Short St 2532 Ansonia St. 1740 Richard Allen Lane 1752 Richard Allen Lane 1734 Burton St. 1742 Burton St. 4983 Trent Hill	N/A
<b>Houses started and sold during the year ended June 30, 2018</b>	6	497,813	416 W 23rd St 1759 Richard Allen Lane 1763 Richard Allen Lane 411 W 25th St. 238 W 24th St. 4226 Carver School Road	N/A
		<u>\$ 1,245,068</u>		
<b>Houses under construction as of June 30, 2018; as yet unsold</b>	8	<u>\$ 261,616</u>	4700 Oak Ridge 2816 Ansonia St. 2824 Ansonia St. 1796 Richard Allen Lane 1769 Burton St. 1835 Willow Oak Way 1910 Short St. 1787 Richard Allen lane	93% 63% 68% 52% 16% 1% 1% 1%

**HABITAT FOR HUMANITY OF FORSYTH COUNTY, INC.**  
**SUPPLEMENTAL SCHEDULE OF HOME BUILDING ACTIVITY**  
**For the Year Ended June 30, 2017**

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	<u>Actual number of houses</u>	<u>Cost</u>	<u>Construction site</u>	<u>Percentage completed at June 30, 2017</u>
Houses under construction as of June 30, 2016; sold during the year ended June 30, 2017	9	\$ 980,275	1648 Burton St. 1701 Burton Ct. 1708 N Cherry St. 1725 Burton Ct. 1741 Burton St. 1771 Richard Allen lane 1772 Richard Allen Lane 1815 Willow Oak Way 1855 Willow Oak Way	N/A
Houses in inventory as of June 30, 2016; sold during the year ended June 30, 2017	2	86,671	423 W 23rd St. 1410 Garfield Ave	N/A
Houses started and sold during the year ended June 30, 2017	4	418,700	2548 Manchester St. 4951 Trent Hill Drive 4972 Trent Hill Drive 909 Palmer Lane	N/A
		<u>\$ 1,485,646</u>		
Houses under construction as of June 30, 2017; as yet unsold	9	<u>\$ 395,326</u>	1915 Short St 1921 Short St 2532 Ansonia St. 1740 Richard Allen Lane 1752 Richard Allen Lane 1734 Burton St. 1742 Burton St. 1605 N Cherry St. 4983 Trent Hill	87% 83% 86% 65% 33% 33% 40% 1% 99%