

**HABITAT FOR HUMANITY OF  
GREATER NASHVILLE**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2019 and 2018*

*And Report of Independent Auditor*

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

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## Report of Independent Auditor

To the Board of Directors  
Habitat for Humanity of Greater Nashville  
Nashville, Tennessee

We have audited the accompanying financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Greater Nashville, as of June 30, 2019 and 2018, 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.

### **Changes in Financial Statement Presentation**

As discussed in Note 2, Habitat for Humanity of Greater Nashville adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

*Cheryl Bekant LLP*

Nashville, Tennessee  
September 25, 2019

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2019 AND 2018*

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Cash and cash equivalents, including escrow accounts<br>of \$637,865 and \$563,398, respectively | \$ 6,302,060         | \$ 6,565,929         |
| Grants receivable  | 794,000              | 307,500              |
| Sponsor and other receivables, net of allowance<br>of \$63,624 and \$54,804, respectively        | 515,314              | 343,807              |
| Inventory - ReStores and other   | 675,158              | 878,704              |
| Real estate held for sale  | 162,035              | 256,028              |
| Construction-in-progress - new homes   | 2,102,498            | 872,957              |
| Property and equipment, net  | 8,400,509            | 8,474,345            |
| Land held for development  | 3,687,144            | 1,999,644            |
| Mortgage notes receivable, net of discounts<br>of \$24,544,835 and \$23,452,398, respectively    | 31,473,983           | 30,060,094           |
| New Markets Tax Credit ("NMTC") intangible assets, net   | 104,064              | 129,096              |
| NMTC joint venture investment  | 2,781,507            | 2,757,331            |
| NMTC joint venture cash  | 52,883               | 77,247               |
| Other assets   | 475,662              | 449,419              |
| <b>Total Assets</b>  | <u>\$ 57,526,817</u> | <u>\$ 53,172,101</u> |
| <b>LIABILITIES AND NET ASSETS</b>  |                      |                      |
| Liabilities:   |                      |                      |
| Accounts payable and accrued expenses  | \$ 986,793           | \$ 400,543           |
| Deferred revenue   | 732,391              | 667,000              |
| Escrow accounts  | 619,411              | 548,439              |
| Notes payable, secured by mortgages, net of unamortized discount                                 | 17,264,029           | 16,719,044           |
| Note payable, secured by Harding Place property  | 3,752,714            | 4,056,020            |
| Notes payable, unsecured   | 415,652              | 343,768              |
| NMTC joint venture note payable, net of issuance costs   | 3,530,289            | 3,525,934            |
| Unearned revenue on mortgage loans   | 3,992,894            | 4,120,924            |
| <b>Total Liabilities</b>   | <u>31,294,173</u>    | <u>30,381,672</u>    |
| Net Assets:  |                      |                      |
| Net assets without donor restrictions  | 11,172,374           | 9,505,365            |
| Net assets with donor restrictions   | 15,060,270           | 13,285,064           |
| <b>Total Net Assets</b>  | <u>26,232,644</u>    | <u>22,790,429</u>    |
| <b>Total Liabilities and Net Assets</b>  | <u>\$ 57,526,817</u> | <u>\$ 53,172,101</u> |

The accompanying notes to the financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

|                                       | 2019                          |                            |                      | 2018<br>Total        |
|---------------------------------------|-------------------------------|----------------------------|----------------------|----------------------|
|                                       | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |                      |
| Support and Revenue:                  |                               |                            |                      |                      |
| Transfers to homeowners               | \$ 6,385,400                  | \$ -                       | \$ 6,385,400         | \$ 5,597,454         |
| Grant income                          | 4,625,165                     | -                          | 4,625,165            | 2,463,611            |
| Contributions                         | 609,250                       | 2,384,767                  | 2,994,017            | 2,843,427            |
| ReStore sales                         | 2,372,264                     | -                          | 2,372,264            | 2,273,702            |
| Mortgage loan discount amortization   | 1,466,743                     | -                          | 1,466,743            | 1,109,873            |
| Interest contributions                | -                             | 1,398,397                  | 1,398,397            | 1,912,462            |
| In-kind contributions                 | 175,408                       | -                          | 175,408              | 204,291              |
| Other income                          | 392,031                       | -                          | 392,031              | 182,612              |
| NMTC investment income                | 50,551                        | -                          | 50,551               | 39,115               |
| Gain on real estate held for sale     | 49,639                        | -                          | 49,639               | 423,057              |
| Interest income                       | 47,939                        | -                          | 47,939               | 10,437               |
|                                       | <u>16,174,390</u>             | <u>3,783,164</u>           | <u>19,957,554</u>    | <u>17,060,041</u>    |
| Net assets released from restrictions | 2,007,958                     | (2,007,958)                | -                    | -                    |
| Total Support and Revenue             | <u>18,182,348</u>             | <u>1,775,206</u>           | <u>19,957,554</u>    | <u>17,060,041</u>    |
| Expenses:                             |                               |                            |                      |                      |
| Program services                      | 14,223,268                    | -                          | 14,223,268           | 12,380,658           |
| Supporting services                   | 2,292,071                     | -                          | 2,292,071            | 2,051,556            |
| Total Expenses                        | <u>16,515,339</u>             | <u>-</u>                   | <u>16,515,339</u>    | <u>14,432,214</u>    |
| Change in net assets                  | 1,667,009                     | 1,775,206                  | 3,442,215            | 2,627,827            |
| Net assets, beginning of year         | 9,505,365                     | 13,285,064                 | 22,790,429           | 20,162,602           |
| Net assets, end of year               | <u>\$ 11,172,374</u>          | <u>\$ 15,060,270</u>       | <u>\$ 26,232,644</u> | <u>\$ 22,790,429</u> |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

|                                       | 2018         |                           |               | 2017<br>Total |
|---------------------------------------|--------------|---------------------------|---------------|---------------|
|                                       | Unrestricted | Temporarily<br>Restricted | Total         |               |
| Support and Revenue:                  |              |                           |               |               |
| Transfers to homeowners               | \$ 5,597,454 | \$ -                      | \$ 5,597,454  | \$ 6,094,827  |
| Grant income                          | 2,246,143    | 217,468                   | 2,463,611     | 3,341,765     |
| Contributions                         | 2,668,427    | 175,000                   | 2,843,427     | 2,684,624     |
| ReStore sales                         | 2,273,702    | -                         | 2,273,702     | 2,000,934     |
| Mortgage loan discount amortization   | 1,109,873    | -                         | 1,109,873     | 1,264,279     |
| Interest contributions                | -            | 1,912,462                 | 1,912,462     | 1,023,739     |
| In-kind contributions                 | 204,291      | -                         | 204,291       | 580,076       |
| Other income                          | 182,612      | -                         | 182,612       | 227,974       |
| Gain on real estate held for sale     | 423,057      | -                         | 423,057       | 227,491       |
| NMTC investment income                | 39,115       | -                         | 39,115        | 39,114        |
| Interest income                       | 10,437       | -                         | 10,437        | 10,319        |
|                                       | 14,755,111   | 2,304,930                 | 17,060,041    | 17,495,142    |
| Net assets released from restrictions | 1,221,834    | (1,221,834)               | -             | -             |
| Total Support and Revenue             | 15,976,945   | 1,083,096                 | 17,060,041    | 17,495,142    |
| Expenses:                             |              |                           |               |               |
| Program services                      | 12,380,658   | -                         | 12,380,658    | 12,709,660    |
| Supporting services                   | 2,051,556    | -                         | 2,051,556     | 1,932,637     |
| Total Expenses                        | 14,432,214   | -                         | 14,432,214    | 14,642,297    |
| Change in net assets                  | 1,544,731    | 1,083,096                 | 2,627,827     | 2,852,845     |
| Net assets, beginning of year         | 7,960,634    | 12,201,968                | 20,162,602    | 17,309,757    |
| Net assets, end of year               | \$ 9,505,365 | \$ 13,285,064             | \$ 22,790,429 | \$ 20,162,602 |

The accompanying notes to the financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2019

|                                    | Program Services    |  |                                    |                     | Supporting Services    |                     |                        |                           | Total                |
|------------------------------------|---------------------|--|------------------------------------|---------------------|------------------------|---------------------|------------------------|---------------------------|----------------------|
|                                    | Construction        | Homeowner Support and Educational Ministries | Discounts on Mortgage Originations | ReStore Operations  | Total Program Services | Fundraising         | Management and General | Total Supporting Services |                      |
| Construction costs - new homes     | \$ 5,942,923        | \$ -   | \$ -                               | \$ -                | \$ 5,942,923           | \$ -                | \$ -                   | \$ -                      | \$ 5,942,923         |
| Salaries and related expenses      | 886,041             | 722,138                                      | -                                  | 1,220,256           | 2,828,435              | 939,151             | 485,308                | 1,424,459                 | 4,252,894            |
| Mortgage discounts                 | -                   | -  | 2,798,925                          | -                   | 2,798,925              | -                   | -                      | -                         | 2,798,925            |
| Interest and discount amortization | 935,091             | 6,191  | -                                  | 25,796              | 967,078                | 8,708               | 45,337                 | 54,045                    | 1,021,123            |
| Depreciation                       | 84,693              | 32,007                                       | -                                  | 176,197             | 292,897                | 45,973              | 16,905                 | 62,878                    | 355,775              |
| Office expenses                    | 50,104              | 41,858                                       | -                                  | 142,257             | 234,219                | 54,085              | 25,339                 | 79,424                    | 313,643              |
| Legal and professional             | 37,392              | 54,857                                       | -                                  | 1,687               | 93,936                 | 11,675              | 101,272                | 112,947                   | 206,883              |
| Repairs and maintenance            | 182,627             | 1,380  | -                                  | 11,244              | 195,251                | 4,040               | 621                    | 4,661                     | 199,912              |
| Down payment assistance            | -                   | 179,998                                      | -                                  | -                   | 179,998                | -                   | -                      | -                         | 179,998              |
| Travel, meals, and entertainment   | 5,971               | 10,157                                       | -                                  | 10,437              | 26,565                 | 96,622              | 10,424                 | 107,046                   | 133,611              |
| Lease expense                      | 9,511               | 8,129  | -                                  | 101,348             | 118,988                | 11,315              | 2,374                  | 13,689                    | 132,677              |
| Small tools and equipment          | 42,785              | 359  | -                                  | 84,045              | 127,189                | 2,038               | 23                     | 2,061                     | 129,250              |
| Taxes and insurance                | 35,915              | 12,946                                       | -                                  | 45,563              | 94,424                 | 16,910              | 6,299                  | 23,209                    | 117,633              |
| Printing and public relations      | 515                 | 16,540                                       | -                                  | 3,022               | 20,077                 | 95,424              | 316                    | 95,740                    | 115,817              |
| Recruiting and training            | 4,576               | 2,773  | -                                  | 15,443              | 22,792                 | 65,345              | 22,561                 | 87,906                    | 110,698              |
| Other                              | 9,553               | 38,373                                       | -                                  | 5,881               | 53,807                 | 6,291               | 41,522                 | 47,813                    | 101,620              |
| Tithe to Habitat International     | 88,005              | -  | -                                  | -                   | 88,005                 | -                   | -                      | -                         | 88,005               |
| Bank and credit card fees          | 19,913              | -  | -                                  | 39,280              | 59,193                 | 10,369              | 9,875                  | 20,244                    | 79,437               |
| Special events                     | -                   | -  | -                                  | -                   | -                      | 72,707              | -                      | 72,707                    | 72,707               |
| Vehicle expenses                   | 35,293              | -  | -                                  | 19,914              | 55,207                 | 2,836               | -                      | 2,836                     | 58,043               |
| Sponsor and volunteer appreciation | 7,886               | 104  | -                                  | 777                 | 8,767                  | 32,614              | 50                     | 32,664                    | 41,431               |
| Advertising                        | 1,180               | 2,878  | -                                  | 9,539               | 13,597                 | 20,925              | 86                     | 21,011                    | 34,608               |
| NMTC amortization                  | -                   | -  | -                                  | -                   | -                      | -                   | 26,731                 | 26,731                    | 26,731               |
| Deconstruction                     | -                   | -  | -                                  | 995                 | 995                    | -                   | -                      | -                         | 995                  |
|                                    | <u>\$ 8,379,974</u> | <u>\$ 1,130,688</u>                          | <u>\$ 2,798,925</u>                | <u>\$ 1,913,681</u> | <u>\$ 14,223,268</u>   | <u>\$ 1,497,028</u> | <u>\$ 795,043</u>      | <u>\$ 2,292,071</u>       | <u>\$ 16,515,339</u> |

The accompanying notes to the financial statements are an integral part of these statements.



**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2018

|                                    | Program Services    |  |                                    |                     | Supporting Services    |                     |                        |                           | Total                |
|------------------------------------|---------------------|--|------------------------------------|---------------------|------------------------|---------------------|------------------------|---------------------------|----------------------|
|                                    | Construction        | Homeowner Support and Educational Ministries | Discounts on Mortgage Originations | ReStore Operations  | Total Program Services | Fundraising         | Management and General | Total Supporting Services |                      |
| Construction costs - new homes     | \$ 5,000,116        | \$ -   | \$ -                               | \$ -                | \$ 5,000,116           | \$ -                | \$ -                   | \$ -                      | \$ 5,000,116         |
| Salaries and related expenses      | 762,336             | 619,385                                      | -                                  | 1,131,658           | 2,513,379              | 886,381             | 425,003                | 1,311,384                 | 3,824,763            |
| Mortgage discounts                 | -                   | -  | 2,447,814                          | -                   | 2,447,814              | -                   | -                      | -                         | 2,447,814            |
| Interest and discount amortization | 862,860             | 2,533  | -                                  | 10,553              | 875,946                | 3,533               | 32,673                 | 36,206                    | 912,152              |
| Office expenses                    | 51,413              | 40,843                                       | -                                  | 176,921             | 269,177                | 89,368              | 32,593                 | 121,961                   | 391,138              |
| Depreciation                       | 76,474              | 32,009                                       | -                                  | 164,690             | 273,173                | 41,425              | 18,051                 | 59,476                    | 332,649              |
| Lease expense                      | 13,242              | 11,370                                       | -                                  | 120,012             | 144,624                | 13,043              | 3,803                  | 16,846                    | 161,470              |
| Legal and professional             | 39,703              | 29,466                                       | -                                  | 2,504               | 71,673                 | 1,390               | 76,518                 | 77,908                    | 149,581              |
| Repairs and maintenance            | 83,690              | 31,899                                       | -                                  | 19,101              | 134,690                | 4,369               | 1,661                  | 6,030                     | 140,720              |
| Other                              | 15,495              | 32,902                                       | -                                  | 40,429              | 88,826                 | 20,358              | 22,699                 | 43,057                    | 131,883              |
| Taxes and insurance                | 39,675              | 13,658                                       | -                                  | 47,170              | 100,503                | 18,298              | 7,061                  | 25,359                    | 125,862              |
| Down payment assistance            | -                   | 119,194                                      | -                                  | -                   | 119,194                | -                   | -                      | -                         | 119,194              |
| Tithe to Habitat International     | 98,992              | -  | -                                  | -                   | 98,992                 | -                   | -                      | -                         | 98,992               |
| Recruiting and training            | 2,466               | 3,575  | -                                  | 12,332              | 18,373                 | 61,448              | 18,234                 | 79,682                    | 98,055               |
| Printing and public relations      | 75                  | 10,283                                       | -                                  | 5,111               | 15,469                 | 75,496              | -                      | 75,496                    | 90,965               |
| Travel, meals, and entertainment   | 2,033               | 6,901  | -                                  | 10,296              | 19,230                 | 62,854              | 7,347                  | 70,201                    | 89,431               |
| Vehicle expenses                   | 47,230              | -  | -                                  | 34,467              | 81,697                 | 2,648               | -                      | 2,648                     | 84,345               |
| Bank and credit card fees          | 12,048              | 20   | -                                  | 38,074              | 50,142                 | 6,075               | 9,876                  | 15,951                    | 66,093               |
| Special events                     | -                   | -  | -                                  | -                   | -                      | 45,497              | -                      | 45,497                    | 45,497               |
| Small tools and equipment          | 29,522              | 337  | -                                  | 6,541               | 36,400                 | 4,854               | 410                    | 5,264                     | 41,664               |
| Sponsor and volunteer appreciation | 2,252               | 1,049  | -                                  | 1,035               | 4,336                  | 30,213              | -                      | 30,213                    | 34,549               |
| Advertising                        | -                   | 900  | -                                  | 9,418               | 10,318                 | 11,007              | -                      | 11,007                    | 21,325               |
| NMTC amortization                  | -                   | -  | -                                  | -                   | -                      | -                   | 17,370                 | 17,370                    | 17,370               |
| Construction costs-reconstruction  | 5,631               | -  | -                                  | -                   | 5,631                  | -                   | -                      | -                         | 5,631                |
| Deconstruction                     | -                   | -  | -                                  | 955                 | 955                    | -                   | -                      | -                         | 955                  |
|                                    | <u>\$ 7,145,253</u> | <u>\$ 956,324</u>                            | <u>\$ 2,447,814</u>                | <u>\$ 1,831,267</u> | <u>\$ 12,380,658</u>   | <u>\$ 1,378,257</u> | <u>\$ 673,299</u>      | <u>\$ 2,051,556</u>       | <u>\$ 14,432,214</u> |

The accompanying notes to the financial statements are an integral part of these statements.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

|   | <b>2019</b>         | <b>2018</b>         |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities:</b>  |                     |                     |
| Change in net assets  | \$ 3,442,215        | \$ 2,627,827        |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                     |                     |
| Loss on disposal of property and equipment  | 9,654               | -                   |
| Interest contributions  | (1,398,397)         | (1,912,462)         |
| Transfers to homeowners   | (3,228,277)         | (2,970,404)         |
| Depreciation and amortization   | 380,807             | 350,019             |
| Gain on real estate held for sale   | (49,639)            | (423,057)           |
| Mortgage loan discount amortization   | (1,466,743)         | (1,109,873)         |
| Amortization of discount on notes payable and issuance costs                            | 943,881             | 871,891             |
| NMTC investment income allocation   | (50,551)            | (39,115)            |
| Changes in operating assets and liabilities:  |                     |                     |
| Grants receivable   | (486,500)           | 754,875             |
| Sponsor and other receivables   | (171,507)           | (49,556)            |
| Construction-in-progress  | (1,229,541)         | 287,699             |
| Land held for development   | (1,687,500)         | (550,865)           |
| NMTC joint venture cash   | 24,364              | (27,278)            |
| Inventory - ReStores and other  | 203,546             | 51,488              |
| Other assets  | (26,243)            | 107,625             |
| Accounts payable and accrued expenses   | 586,250             | (49,695)            |
| Deferred revenue  | 65,391              | (162,705)           |
| Escrow accounts   | 70,972              | 23,966              |
| Net cash used in operating activities   | <u>(4,067,818)</u>  | <u>(2,219,620)</u>  |
| <b>Cash flows from investing activities:</b>  |                     |                     |
| Improvements to real estate held for sale   | (33,642)            | (321,790)           |
| Purchases of property and equipment   | (321,887)           | (347,933)           |
| Proceeds from disposal of property  | 299,482             | 724,111             |
| Mortgage payments received  | 3,061,187           | 2,807,055           |
| NMTC joint venture investment   | -                   | (1,207,410)         |
| Acquisition of NMTC intangible assets   | -                   | (131,108)           |
| NMTC joint venture investment net distribution  | 26,375              | 19,700              |
| Net cash provided by investing activities   | <u>3,031,515</u>    | <u>1,542,625</u>    |
| <b>Cash flows from financing activities:</b>  |                     |                     |
| Proceeds from issuance of notes payable   | 3,493,530           | 4,434,974           |
| Proceeds from NMTC note payable   | -                   | 1,715,000           |
| Cash paid for debt issuance costs   | -                   | (53,142)            |
| Repayments on notes payable   | (2,721,096)         | (4,410,546)         |
| Net cash provided by financing activities   | <u>772,434</u>      | <u>1,686,286</u>    |
| Net (decrease) increase in cash and cash equivalents                                    | (263,869)           | 1,009,291           |
| Cash and cash equivalents at beginning of year  | <u>6,565,929</u>    | <u>5,556,638</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 6,302,060</u> | <u>\$ 6,565,929</u> |

The accompanying notes to the financial statements are an integral part of these statements.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### Note 1—Organization and purpose

Habitat for Humanity of Greater Nashville (“Habitat”), a nonprofit corporation, was chartered by the state of Tennessee on March 25, 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

### Note 2—Summary of significant accounting policies

*Financial Statement Presentation* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. Under these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of Habitat. These net assets may be used at the discretion of Habitat’s management and the board of directors.

*Net Assets with Donor Restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions represent contributions receivable and amounts available for programs.

*Contributions* – Contributions are recognized when the donor makes a promise to give to Habitat that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions based on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

*Income Taxes* – Habitat is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is not a private foundation. Therefore, no provision for income taxes has been made.

Habitat follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

*Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. 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 and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

*Cash Equivalents* – For purposes of the statements of cash flows, Habitat considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### **Note 2—Summary of significant accounting policies (continued)**

*Liquidity* – Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and cash equivalents and liabilities are presented according to their maturing resulting in use of cash and cash equivalents.

*Home Sales and Mortgage Notes Receivable* – Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgage notes receivable. These mortgage payments do not include interest and, accordingly, the mortgages have been discounted at various interest rates based upon prevailing market rates at the inception of the mortgages. Discounts are amortized over the lives of the mortgages. The discounted value of mortgages at the time of sale is generally less than the home's fair market value. Therefore, management believes that losses resulting from non-payment of mortgages are not reasonably probable and, accordingly, no allowance for mortgage notes receivable has been recorded. Past due status is based on contractual terms of the mortgage notes receivable. At 120 days past due, the mortgage notes receivable become subject to foreclosure.

Unearned revenue on mortgage notes receivable represents the discounted value of non-interest bearing second and third mortgage loans issued on Habitat homes. The homeowner is required to sign one or more additional mortgages for the difference between the estimated fair market value of the home and the payable mortgage balances as of the transfer date. Certain of these mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of the non-payable second and third mortgage loans except in the event of sale, refinance, or foreclosure of the home.

*Real Estate Held for Sale* – Real estate assets acquired through or in lieu of loan foreclosure are recorded at fair value less estimated selling cost. Costs of property improvements are capitalized. Estimated gains at acquisition and net gains or losses realized on the sale are recorded in the statements of activities as gain on real estate held for sale.

*Property and Equipment* – Property and equipment is reported at cost at the date of purchase or at fair market value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to thirty-nine years.

*Land Held for Development* – Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. Costs incurred to improve land are capitalized when incurred. Interest incurred on related debt during the construction period is capitalized as incurred. The total allocated cost of each lot is charged to construction-in-progress upon commencement of building activities.

*Inventory* – Inventory consists primarily of donated home furnishings and building and home improvement materials which are sold in the ReStores. Habitat believes that the inventory of donated goods and materials does not possess an attribute that is easily measureable or verifiable with sufficient reliability to determine an inventory value at the time of donation. Accordingly, donated inventory is valued at zero prior to being offered for sale. At the end of its fiscal year, Habitat generally estimates the value of donated goods on hand and records the amount as merchandise inventory with corresponding adjustments to in-kind contributions.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### **Note 2—Summary of significant accounting policies (continued)**

*Deferred Revenue* – Deferred revenue consists of deposits received on conditional promises to give from sponsors of future home building and totaled \$732,391 and \$667,000 at June 30, 2019 and 2018, respectively.

*Revenue Recognition* – Contributions are recognized as revenue when received. Contributed land and equipment are recorded at estimated fair value at the date of the donation. In-kind contributions (primarily construction materials and land for development) are recorded based on their estimated value on the date of receipt.

No amounts have been reflected in the financial statements for donated labor by unskilled volunteers as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to Habitat's program services.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Habitat determines an allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections.

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

*Grant Income* – Grant funds are earned and reported as revenue when Habitat has incurred expenses in compliance with the specific restrictions of the grant agreement. Grant funds that are restricted for use in home construction are reflected as unrestricted revenue since these funds are generally received and spent during the same year.

*Program Services* – Program services include construction, ReStore operations, homeowner support, and educational ministries, and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of new homes transferred, which have an average cost of \$156,393 and \$135,138 for the years ended June 30, 2019 and 2018, respectively.

*Advertising* – Advertising costs are charged to expense as incurred. Advertising expense totaled \$34,608 and \$21,325 for the years ended June 30, 2019 and 2018, respectively.

*Debt Issuance Costs* – Costs relating to the issuance of notes payable are amortized to interest expense over the term of the debt, using the straight-line method. The unamortized amount is presented as a reduction of long-term debt on the statements of financial position.

*Functional Allocation of Expenses* – The costs of providing program and supporting services have been reported on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services benefitted. Such allocations are determined by management on an equitable basis. Expenses that are allocated consist primarily of salaries and wages expenses which was allocated based on time and effort.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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### Note 2—Summary of significant accounting policies (continued)

*Summarized Financial Information* – The financial statements include certain 2017 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Habitat’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

*Change in Accounting Principle* – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14.

*Accounting Policies for Future Pronouncements* – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for Habitat for the year ending June 30, 2020. Habitat is currently evaluating the effect of the implementation of this new standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the year ending June 30, 2020. Habitat is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending June 30, 2021. Habitat is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

*Subsequent Events* – Habitat evaluated subsequent events through September 25, 2019, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 3—Liquidity

Habitat regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Habitat considers all expenditures related to its ongoing activities of bringing people together to build homes, communities, and hope, as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following at June 30, 2019:

Financial Assets:

|   |                     |
|---|---------------------|
| Cash and cash equivalents, less escrow accounts | \$ 5,664,195        |
| Grants receivable due in one year               | 794,000             |
| Sponsor and other receivables                   | 485,314             |
|   | <u>\$ 6,943,509</u> |

### Note 4—Grants receivable

A summary of grants receivable as of June 30 is as follows:

|   | <b>2019</b>       | <b>2018</b>       |
|---|-------------------|-------------------|
| Federal Home Loan Bank                      | \$ 701,250        | \$ 212,500        |
| Foundations and other                       | -                 | 95,000            |
| Metropolitan Development and Housing Agency | 92,750            | -                 |
|   | <u>\$ 794,000</u> | <u>\$ 307,500</u> |

### Note 5—Unconditional promises to give

Habitat has included unconditional promises to give in sponsor and other receivables. Unconditional promises to give consist of the following at June 30:

|  | <b>2019</b>      | <b>2018</b>      |
|--|------------------|------------------|
| Unconditional promises to give                     | \$ 578,938       | \$ 398,611       |
| Less allowance for uncollectible contributions     | (63,624)         | (54,804)         |
| Net unconditional promises to give                 | 515,314          | 343,807          |
| Less amounts receivable in less than one year, net | (485,314)        | (293,807)        |
| Receivable in one to five years, net               | <u>\$ 30,000</u> | <u>\$ 50,000</u> |

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 6—Construction-in-progress – new homes

A summary of new home construction activity for 2019 is as follows:

|  | <b>Number</b> | <b>Costs</b>        |
|--|---------------|---------------------|
| New homes under construction, June 30, 2018      | 28            | \$ 872,957          |
| Additional costs incurred on beginning inventory | -             | 2,821,641           |
| New homes started in 2019                        | 32            | 4,350,823           |
| New homes closed in 2019                         | (38)          | (5,942,923)         |
| New homes under construction, June 30, 2019      | <u>22</u>     | <u>\$ 2,102,498</u> |

### Note 7—Property and equipment

A summary of property and equipment as of June 30 is as follows:

|                               | <b>2019</b>         | <b>2018</b>         |
|-------------------------------|---------------------|---------------------|
| Land and land improvements    | \$ 2,897,950        | \$ 2,897,950        |
| Buildings                     | 5,496,675           | 5,481,925           |
| Office equipment              | 308,609             | 269,209             |
| Leasehold improvements        | 57,502              | 55,944              |
| Vehicles and trailers         | 516,458             | 463,367             |
| Other                         | 364,911             | 371,053             |
|                               | <u>9,642,105</u>    | <u>9,539,448</u>    |
| Less accumulated depreciation | (1,241,596)         | (1,065,103)         |
|                               | <u>\$ 8,400,509</u> | <u>\$ 8,474,345</u> |

### Note 8—Land held for development

Land held for development consists of real property and incurred development costs for the purpose of future home construction. Land held for development consists of the following by area at June 30:

|                 | <b>2019</b>         | <b>2018</b>         |
|-----------------|---------------------|---------------------|
| Park Preserve   | \$ 1,944,739        | \$ 1,419,272        |
| Hamilton Hills  | 1,063,650           | -                   |
| Ewing Drive     | 334,286             | -                   |
| Wilson County   | 101,729             | 201,595             |
| Cheatham County | 116,850             | 151,427             |
| Dickson County  | 125,890             | 149,409             |
| Antioch         | -                   | 77,941              |
|                 | <u>\$ 3,687,144</u> | <u>\$ 1,999,644</u> |



**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

**Note 9—Mortgage notes receivable**

At June 30, 2019 and 2018, Habitat holds mortgage notes receivable totaling \$56,018,818 and \$53,512,492, respectively, at face value generally with original maturities of 30 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The notes have been discounted at various interest rates ranging from 4.5% to 9% over the lives of the mortgages. Mortgages are reported net of unamortized discount.

Mortgage notes receivable and the related discount are summarized as follows at June 30:

|                           | <u>2019</u>          | <u>2018</u>          |
|---------------------------|----------------------|----------------------|
| First mortgages           | \$ 42,163,826        | \$ 40,357,661        |
| Second mortgages          | 12,355,244           | 11,808,052           |
| Third mortgages           | <u>1,499,748</u>     | <u>1,346,779</u>     |
|                           | 56,018,818           | 53,512,492           |
| Less unamortized discount | <u>(24,544,835)</u>  | <u>(23,452,398)</u>  |
|                           | <u>\$ 31,473,983</u> | <u>\$ 30,060,094</u> |

Following is a table which includes an aging analysis of the recorded investment of past due mortgage notes receivable as of June 30:

|                               | <u>2019</u>          | <u>2018</u>          |
|-------------------------------|----------------------|----------------------|
| 31 - 60 days past due         | \$ 217,506           | \$ 368,420           |
| 61 - 90 days past due         | 43,606               | 297,505              |
| Greater than 90 days past due | <u>154,536</u>       | <u>252,817</u>       |
| Total past due                | 415,648              | 918,742              |
| Current                       | <u>55,603,170</u>    | <u>52,593,750</u>    |
|                               | <u>\$ 56,018,818</u> | <u>\$ 53,512,492</u> |

Principal payments due on mortgage notes receivable are as follows:

**Years Ending June 30,**

|   |                      |
|---|----------------------|
| 2020  | \$ 2,029,462         |
| 2021  | 2,195,182            |
| 2022  | 2,187,736            |
| 2023  | 2,178,096            |
| 2024  | 2,179,076            |
| Thereafter (including non-paying second and third mortgages of \$5,600,388) | <u>45,249,266</u>    |
| Notes receivable at face value  | 56,018,818           |
| Less unamortized discount   | <u>(24,544,835)</u>  |
|   | <u>\$ 31,473,983</u> |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019 AND 2018

**Note 10—New markets tax credit intangible assets**

Habitat incurred \$44,136 in guarantor fees related to its New Markets Tax Credit (“NMTC”) financing in August 2012, to be amortized over seven years, the period to which the guarantee applies. Habitat incurred \$27,125 in guarantor fees, \$13,333 in audit fees, \$64,400 in asset management fees, and \$26,250 in consulting fees related to its NMTC financing in December 2017, to be amortized over seven years, the period to which the assets apply. The intangible assets represent fees paid to the third-party administrator in the transaction, who is responsible for ensuring that Habitat performs and complies with all aspects of the transaction requirements.

As of June 30, the balances of NMTC intangible assets and accumulated amortization are as follows:

|   | <u>2019</u>       | <u>2018</u>       |
|---|-------------------|-------------------|
| Qualified active low income community business (QALICB) guarantor fee | \$ 71,261         | \$ 71,261         |
| CDE audit fee   | 13,333            | 13,333            |
| Asset management fee  | 64,400            | 64,400            |
| Consulting fee  | <u>26,250</u>     | <u>26,250</u>     |
| Total intangible assets   | 175,244           | 175,244           |
| Accumulated NMTC amortization   | <u>(71,180)</u>   | <u>(46,148)</u>   |
| NMTC intangible assets, net   | <u>\$ 104,064</u> | <u>\$ 129,096</u> |

In August 2012, Habitat invested, along with five other Habitat affiliates, in a joint venture, CCML Leverage II, LLC (“CCML”), to take advantage of NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets’ tax credits to be applied against their federal tax liability. Habitat invested a combination of cash and construction in progress totaling \$1,430,134 for a 16.67% ownership stake, enabling it to secure a 15-year loan in the amount of \$1,880,000 payable to CCM Community Development XXVII, LLC (“CCM”), a community development entity. The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

The investment in joint venture is accounted for using the equity method and the carrying amount of the investment is increased for Habitat’s proportionate share of the joint venture’s earnings and decreased for Habitat’s proportionate share of the joint venture’s losses. The activity of the NMTC joint venture investment during the year ended June 30 is as follows:

|                        | <u>2019</u>         | <u>2018</u>         |
|------------------------|---------------------|---------------------|
| Beginning balance      | \$ 1,555,320        | \$ 1,530,506        |
| Distributions received | (14,301)            | (14,301)            |
| Share of income        | 39,114              | 39,115              |
| Ending balance         | <u>\$ 1,580,133</u> | <u>\$ 1,555,320</u> |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

**Note 10—New markets tax credit intangible assets (continued)**

In December 2017, Habitat invested, along with five other Habitat affiliates, in a partnership, Harbor Habitat Leverage II, LLC (“HHL”), with 16.6667% ownership to take advantage of NMTC financing. Habitat invested a combination of cash and construction in progress totaling \$1,207,410, enabling it to secure a 20-year loan in the amount of \$1,715,000 payable to Harbor Community Fund XIII, LLC (“HCF”), a community development entity. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

The investment in partnership is accounted for using the equity method and the carrying amount of the investment is increased for Habitat’s proportionate share of the joint venture’s earnings and decreased for Habitat’s proportionate share of the joint venture’s losses.

The activity of the NMTC joint venture investment during the year ended June 30 is as follows:

|                        | <u>2019</u>         | <u>2018</u>         |
|------------------------|---------------------|---------------------|
| Beginning balance      | \$ 1,202,011        | \$ -                |
| Capital contributed    | -                   | 1,207,410           |
| Distributions received | (12,074)            | (5,399)             |
| Share of income        | 11,437              | -                   |
| Ending balance         | <u>\$ 1,201,374</u> | <u>\$ 1,202,011</u> |

The major assets of CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC at June 30, 2019 and 2018 are as follows:

|                  | <u>June 30, 2019</u>         |  | <u>June 30, 2018</u>         |  |
|------------------|------------------------------|--|------------------------------|--|
|                  | <u>CCML Leverage II, LLC</u> | <u>Harbor Habitat Leverage II, LLC</u> | <u>CCML Leverage II, LLC</u> | <u>Harbor Habitat Leverage II, LLC</u> |
| Assets:          |                              |  |                              |  |
| Notes receivable | \$ 15,735,842                | \$ 7,244,463                           | \$ 15,735,842                | \$ 7,244,463                           |
| Other assets     | <u>1,740,831</u>             | <u>-</u>                               | <u>1,467,814</u>             | <u>-</u>                               |
| Total assets     | <u>\$ 17,476,673</u>         | <u>\$ 7,244,463</u>                    | <u>\$ 17,203,656</u>         | <u>\$ 7,244,463</u>                    |

At June 30, 2019 and 2018, both CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC had no liabilities and minimal activity.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

**Note 11—Notes payable**

|  | <u>2019</u>   | <u>2018</u>   |
|--|---------------|---------------|
| Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments totaling \$86,542 (at June 30, 2019) with varying maturities through July 2048, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$12,001,591. The notes have an undiscounted balance outstanding of \$22,097,696 and \$21,958,701 at June 30, 2019 and 2018, respectively. Discount rates ranging from 4.5% to 5.25% were applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$743,283 and \$958,955 has been recognized in 2019 and 2018, respectively, to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$10,096,105 and \$10,024,885, respectively. | \$ 12,001,591 | \$ 11,933,816 |
| Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$16,495, maturing at various times through December 2045. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding of \$3,592,338 and \$4,045,367 at June 30, 2019 and 2018, respectively. Contribution revenue of \$1,959,239 was recognized in 2016 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$1,423,494 and \$1,600,012, respectively.   | 2,168,844     | 2,445,355     |
| Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$170 to \$1,640 through December 2023.   | 325,652       | 243,768       |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

**Note 11—Notes payable (continued)**

|   | <u>2019</u>  | <u>2018</u>  |
|---|--------------|--------------|
| Notes payable to The Housing Fund, Inc. secured by certain real property, non-interest bearing, payable in 120 to 180 equal monthly principal installments ranging from \$244 to \$617, through June 2030. The notes have been discounted using a rate of 4.5%. Contribution revenue of \$104,819 was recognized in 2018 to present the difference between the present value of the notes payable and their undiscounted balances of \$1,295,652 and \$1,466,507, at June 30, 2019 and 2018, respectively. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$259,303 and \$289,544, respectively.  | \$ 1,036,349 | \$ 1,176,963 |
| Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$2,020, maturing at various times through November 2047. The notes payable have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2019 and 2018 of \$1,057,852 and \$472,020, respectively. Contribution revenue of \$237,805 and \$176,360 was recognized in 2019 and 2018, respectively, to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$406,393 and \$183,423, respectively. | 651,459      | 288,597      |
| Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$2,961, maturing at various times through July 2047. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2019 and 2018 of \$953,461 and \$988,991, respectively. Contribution revenue of \$440,844 was recognized in 2018 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$416,266 and \$431,789, respectively.   | 537,195      | 557,202      |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2019 AND 2018

**Note 11—Notes payable (continued)**

|   | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$1,757, maturing at various times through June 2047. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2019 and 2018 of \$522,847 and \$543,926, respectively. Contribution revenue of \$231,484 was recognized in 2018 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 and 2018 amounted to \$218,116 and \$226,815, respectively. | \$ 304,731           | \$ 317,111           |
| Note payable to bank, unsecured at a variable interest rate of 4% below prime (1.0% at June 30, 2018), maturing in December 2020.   | 90,000               | 100,000              |
| Note payable to bank, secured by certain real property with a net book value of \$7,688,205 at June 30, 2019, at a variable interest rate of 4% below prime (1.5% at June 30, 2019), with a 20-year amortization maturing in October 2023.  | 3,752,714            | 4,056,020            |
| Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$1,757, maturing at various times through June 2047. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2019 of \$972,214. Contribution revenue of \$417,299 was recognized in 2019 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2019 amounted to \$408,354.   | 563,860              | -                    |
|   | <u>\$ 21,432,395</u> | <u>\$ 21,118,832</u> |

Notes payable are presented in the statements of financial position as follows at June 30:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Notes payable, secured by mortgages, net of unamortized discount | \$ 17,264,029        | \$ 16,719,044        |
| Note payable, secured by Harding Place property                  | 3,752,714            | 4,056,020            |
| Notes payable, unsecured   | 415,652              | 343,768              |
|  | <u>\$ 21,432,395</u> | <u>\$ 21,118,832</u> |

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 11—Notes payable (continued)

Future principal maturities of notes payable are as follows:

#### Years Ending June 30,

|                                       |                             |
|---------------------------------------|-----------------------------|
| 2020                                  | \$ 1,918,905                |
| 2021                                  | 2,021,980                   |
| 2022                                  | 1,923,162                   |
| 2023                                  | 1,907,058                   |
| 2024                                  | 4,066,149                   |
| Thereafter                            | <u>22,870,305</u>           |
| Total principal maturities            | 34,707,559                  |
| Debt issuance costs                   | (47,134)                    |
| Amounts representing imputed interest | <u>(13,228,030)</u>         |
|                                       | <u><u>\$ 21,432,395</u></u> |

### Note 12—Line of credit

Habitat has a \$950,000 line of credit agreement with a bank bearing interest at the bank's index rate plus 1% (6% at June 30, 2019). The line of credit is secured by real estate. The line of credit has a maturity date of January 2020. At June 30, 2019 and 2018, no borrowings were outstanding under the line of credit agreement.

### Note 13—New markets tax credit joint venture note payable

Habitat has a loan payable to CCM, dated August 31, 2012, as part of the NMTC transaction. It is a 15-year loan bearing interest at 0.76% with semi-annual interest-only payments commencing on November 10, 2012, and continuing until November 10, 2020. Principal and interest payments are to commence on November 10, 2020, due semi-annually to then fully amortize the principal balance over an eight-year period, maturing May 10, 2028.

The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the joint venture's related parties that is expected to be exercised in 2020 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2019 and 2018 is \$1,880,000, net of issuance costs of \$15,555 and \$17,252, respectively. Debt issuance costs of \$27,151 are being amortized to interest expense over the 15-year term of the loan.

Simultaneous with these transactions, CCML entered into an option agreement (the "Agreement") with U.S. Bancorp Community Development Corporation ("USBCDC"), the federal tax credit investor, who is the sole-member of CCM CD 27 Investment Fund, LLC (the "Fund"), and the upstream effective owner of CCM. Under the terms of the Agreement, USBCDC exercised its put option on September 15, 2019. Under the terms of the put option agreement, CCML purchased the ownership interest of the 2012 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2009 Fund and will result in approximately \$300,000 in debt forgiveness income during 2020.

# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 13—New markets tax credit joint venture note payable (continued)

Exercise of this option will effectively extinguish Habitat's outstanding debt owed to the Fund. Habitat will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off Habitat's books. All entities including CCML will then be dissolved effectively ending the structured financing deal.

Pursuant to the Agreement, Habitat is required to comply with the NMTC requirements as generally set forth in the IRC Section 45D, including that Habitat maintain a separate part of business such that the separate business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the separate part of business assets of Habitat was pledged as security under the agreement with CCM.

Habitat has a loan payable to HCF, dated December 20, 2017, as part of a second NMTC transaction. It is a 20-year loan bearing interest at 0.70% with semi-annual interest-only payments commencing on June 5, 2018, and continuing until June 5, 2025. Principal and interest payments are to commence on June 5, 2025, due semi-annually to then fully amortize the principal balance over a 12-year period, maturing December 20, 2037.

The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the partnership's related parties that is expected to be exercised in 2025 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2019 and 2018 is \$1,715,000, net of issuance costs of \$49,156 and \$51,814, respectively. Debt issuance costs of \$53,142 are being amortized to interest expense over the 20-year term of the loan.

Simultaneous with these transactions, HHL entered into an option agreement (the "Option Agreement") with USBCDC, who is the sole-member of Twain Investment Fund 296, LLC (the "Twain Fund"), and the upstream effective owner of HCF. Under the terms of the Option Agreement, USBCDC is expected to put its ownership interest into the Twain Fund for \$1,000, during the six-month put period beginning December 20, 2024.

Exercise of this option will effectively extinguish Habitat's outstanding debt owed to HCF. Habitat will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off Habitat's books. All entities including Habitat Harbor Leverage II, LLC, will then be dissolved effectively ending the structured financing deal.

Pursuant to the agreement, Habitat is required to comply with the NMTC requirements as generally set forth in the IRC Section 45D, including that Habitat maintain a separate part of business such that the separate business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the separate part of business assets of Habitat was pledged as security under the agreement with HCF.

### Note 14—Net assets with donor restrictions

Net assets with donor restrictions consist principally of contributions restricted for future programs or improvements to existing programs. Significant components include the following at June 30:

|                                       | <u>2019</u>          | <u>2018</u>          |
|---------------------------------------|----------------------|----------------------|
| Unamortized discount on notes payable | \$ 13,228,030        | \$ 12,756,468        |
| Donor restricted contributions        | 1,787,833            | 419,117              |
| Unconditional promises to give, net   | 44,407               | 109,479              |
|                                       | <u>\$ 15,060,270</u> | <u>\$ 13,285,064</u> |



# HABITAT FOR HUMANITY OF GREATER NASHVILLE

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### Note 15—Concentrations

Habitat maintains its cash in bank accounts that at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2019 and 2018 totaled \$158,927 and \$1,086,588, respectively.

### Note 16—Commitments and contingencies

In connection with the development of Park Preserve, Edison Park, and Hallmark subdivisions, Habitat has obtained letters of credit totaling \$1,621,000 and \$1,590,000 at June 30, 2019 and 2018, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2019 and 2018. The letters of credit expire through August 2020.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$132,677 and \$161,470 for the years ended June 30, 2019 and 2018, respectively. A summary of future minimum rental payments as of June 30, 2019 is as follows:

#### Years Ending June 30,

|      |    |               |
|------|----|---------------|
| 2020 | \$ | 79,378        |
| 2021 |    | 11,383        |
| 2022 |    | 1,503         |
| 2023 |    | 309           |
|      | \$ | <u>92,573</u> |

From time to time, Habitat is involved in litigation. In the opinion of management, no current or threatened litigation will have a material effect on Habitat's financial position or activities.

### Note 17—In-kind contributions

In-kind contributions received by Habitat are recorded based on their estimated value on the date of receipt. A summary of in-kind contributions is as follows for the years ended June 30:

|                                       | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------|-------------|
| Building supplies and home appliances | \$ 175,408  | \$ 204,291  |

Approximately 7,700 and 7,400 individuals contributed significant amounts of time to Habitat's activities during the years ended June 30, 2019 and 2018, respectively. The financial statements do not reflect the value of these services because they do not meet the recognition criteria prescribed by U.S. GAAP.

### Note 18—Retirement plan

Habitat has a defined contribution retirement plan for its employees, which was established as a Simple IRA. As described in the plan document, substantially all full-time employees are eligible to participate in the plan. Discretionary contributions may be made at the option of the Board of Directors. Habitat recognized retirement plan expense of \$69,442 and \$62,815 for the years ended June 30, 2019 and 2018, respectively.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2019 AND 2018*

**Note 19—Supplemental cash flow information**

The following is supplemental cash flow information required by U.S. GAAP.

**Supplemental Cash Flow Information**

|               | <u>2019</u> | <u>2018</u> |
|---------------|-------------|-------------|
| Interest paid | \$ 52,561   | \$ 21,889   |

**Supplemental Schedule of Noncash Investing and Financing Activities**

|  | <u>2019</u>  | <u>2018</u>  |
|--|--------------|--------------|
| Issuance of non-interest bearing mortgage loans                        | \$ 6,027,202 | \$ 5,418,218 |
| Discount on non-interest bearing mortgage loans                        | (2,798,925)  | (2,447,814)  |
| Transfers to homeowners subject to non-interest bearing mortgage loans | \$ 3,228,277 | \$ 2,970,404 |
| Loans transferred to real estate held for sale                         | \$ 91,914    | \$ 127,503   |

**Note 20—Related parties**

At June 30, 2019 and 2018, Habitat owed notes payable, net of discounts, totaling approximately \$6,663,017 and \$7,507,000, respectively, to financial institutions which have executives who serve on Habitat's Board of Directors.

Habitat receives voluntary contributions, house sponsorship funding, in-kind contributions, and volunteer labor from various board members and their companies throughout the year. Some professional services are also purchased from board members and their companies throughout the course of the year. None of these transactions are considered to be individually significant to Habitat's financial statements.

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, Habitat contributed \$88,005 and \$98,992, respectively, to Habitat International.

Habitat has received Self-Help Homeownership Opportunity Program ("SHOP") funds from Habitat International. Of the funds received, 75% were in the form of a grant with the remaining 25% repayable under non-interest bearing four-year notes payable. During the years ended June 30, 2019 and 2018, Habitat was granted \$576,704 and \$246,806, respectively. At June 30, 2019 and 2018, the balances of the loans totaled \$325,652 and \$243,768, respectively.