

**HABITAT FOR HUMANITY
OF GREATER NASHVILLE**

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2021

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 statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, management has elected to change its policy for recording in-kind contributions in 2021. Our opinion is not modified with respect to that matter.



Nashville, Tennessee
September 27, 2021

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

ASSETS

Cash and cash equivalents, including escrow accounts of \$585,080	\$ 13,076,842
Grants receivable	401,506
Sponsor and other receivables, net of allowance of \$69,977	172,011
Inventory - ReStores and other	705,455
Construction-in-progress - new homes	2,572,831
Property and equipment, net	7,911,698
Land held for development	2,698,089
Mortgage notes receivable, net of discounts of \$26,791,831	34,381,745
New Markets Tax Credit intangible assets, net	159,213
New Markets Tax Credit joint venture investment	2,307,652
New Markets Tax Credit joint venture cash	76,115
Other assets	370,112
Total Assets	<u>\$ 64,833,269</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 860,107
Deferred revenue	1,152,263
Escrow accounts	588,280
Deferred grant revenue - Paycheck Protection Program loan	746,625
Notes payable, secured by mortgages, net of unamortized discount	18,963,638
Note payable, secured by Harding Place property	3,142,475
Notes payable, unsecured	503,551
New Markets Tax Credit joint venture note payable, net of issuance costs	3,113,917
Unearned revenue on mortgage loans	3,985,314
Total Liabilities	<u>33,056,170</u>

Net Assets:

Net assets without donor restrictions	16,615,430
Net assets with donor restrictions	15,161,669
Total Net Assets	<u>31,777,099</u>
Total Liabilities and Net Assets	<u>\$ 64,833,269</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Transfers to homeowners	\$ 5,651,380	\$ -	\$ 5,651,380
Grant income	3,126,595	-	3,126,595
Contributions	2,260,845	80,100	2,340,945
ReStore sales	2,874,435	-	2,874,435
Mortgage loan discount amortization	1,582,774	-	1,582,774
Interest contributions	-	2,137,256	2,137,256
Other income	430,291	-	430,291
In-kind contributions	3,073,267	-	3,073,267
Interest income	43,950	-	43,950
New Markets Tax Credit investment income	17,541	-	17,541
	<u>19,061,078</u>	<u>2,217,356</u>	<u>21,278,434</u>
Net assets released from restrictions	1,968,618	(1,968,618)	-
Total Support and Revenue	<u>21,029,696</u>	<u>248,738</u>	<u>21,278,434</u>
Expenses:			
Program services	16,681,210	-	16,681,210
Supporting services	2,120,704	-	2,120,704
Total Expenses	<u>18,801,914</u>	<u>-</u>	<u>18,801,914</u>
Change in net assets from operations	2,227,782	248,738	2,476,520
Contribution of net assets from Robertson County Habitat for Humanity, Inc.	<u>201,245</u>	<u>-</u>	<u>201,245</u>
Change in net assets	2,429,027	248,738	2,677,765
Net assets, beginning of year	<u>14,186,403</u>	<u>14,912,931</u>	<u>29,099,334</u>
Net assets, end of year	<u>\$ 16,615,430</u>	<u>\$ 15,161,669</u>	<u>\$ 31,777,099</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	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	\$ 5,468,928	\$ -	\$ -	\$ -	\$ 5,468,928	\$ -	\$ -	\$ -	\$ 5,468,928
Costs of ReStore sales	-	-	-	2,736,899	2,736,899	-	-	-	2,736,899
Salaries and related expenses	858,341	767,118	-	1,300,820	2,926,279	952,526	448,666	1,401,192	4,327,471
Mortgage discounts	-	-	2,449,242	-	2,449,242	-	-	-	2,449,242
Interest and discount amortization	1,103,855	-	-	-	1,103,855	-	40,878	40,878	1,144,733
Depreciation	81,728	33,138	-	170,823	285,689	46,747	16,794	63,541	349,230
Down payment and mortgage assistance	-	248,147	-	-	248,147	-	-	-	248,147
Office expenses	46,716	56,592	-	142,950	246,258	63,123	27,072	90,195	336,453
Travel, meals, and entertainment	3,055	3,659	-	16,909	23,623	23,156	3,529	26,685	50,308
Repairs and maintenance	202,324	3,044	-	14,740	220,108	3,951	2,714	6,665	226,773
Other	21,913	22,109	-	11,399	55,421	2,429	27,190	29,619	85,040
Small tools and equipment	33,346	-	-	69,276	102,622	1,229	-	1,229	103,851
Legal and professional	135,830	25,102	-	680	161,612	-	107,182	107,182	268,794
Redevelopment costs	213,078	-	-	-	213,078	-	-	-	213,078
Lease expense	10,227	8,920	-	51,794	70,941	11,484	2,296	13,780	84,721
Printing and public relations	59	4,287	-	934	5,280	114,610	222	114,832	120,112
Taxes and insurance	42,907	16,743	-	50,192	109,842	18,713	6,894	25,607	135,449
Recruiting and training	5,877	1,559	-	4,575	12,011	53,865	15,378	69,243	81,254
Tithe to Habitat International	106,340	-	-	-	106,340	-	-	-	106,340
Bank and credit card fees	15,305	61	-	48,864	64,230	9,345	12,763	22,108	86,338
Vehicle expenses	28,101	50	-	23,366	51,517	1,684	-	1,684	53,201
Sponsor and volunteer appreciation	7,623	375	-	916	8,914	9,834	246	10,080	18,994
Advertising	1,328	1,238	-	7,808	10,374	16,359	350	16,709	27,083
New Markets Tax Credit amortization	-	-	-	-	-	-	34,560	34,560	34,560
Special events	-	-	-	-	-	44,915	-	44,915	44,915
	<u>\$ 8,386,881</u>	<u>\$ 1,192,142</u>	<u>\$ 2,449,242</u>	<u>\$ 4,652,945</u>	<u>\$ 16,681,210</u>	<u>\$ 1,373,970</u>	<u>\$ 746,734</u>	<u>\$ 2,120,704</u>	<u>\$ 18,801,914</u>

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 2,677,765
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Contribution of net assets from Robertson County	(166,018)
Interest contributions	(2,137,256)
Transfers to homeowners	(2,972,138)
Depreciation and amortization	383,790
Bad debt expense	717
Mortgage loan discount amortization	(1,582,774)
Amortization of discount on notes payable and issuance costs	1,121,538
New Markets Tax Credit investment income allocation	(17,541)
Changes in operating assets and liabilities:	
Grants receivable	651,497
Sponsor and other receivables	18,171
Construction-in-progress - new homes	(1,234,524)
Land held for development	589,723
Inventory - ReStores and other	(89,900)
Other assets	12,461
Accounts payable and accrued expenses	91,212
Deferred revenue	426,740
Escrow accounts	(62,567)
Net cash flows from operating activities	<u>(2,289,104)</u>
Cash flows from investing activities:	
Purchases of property and equipment	(121,395)
Mortgage payments received	3,945,021
New Markets Tax Credit joint venture investment net distribution	23,100
Net cash flows from investing activities	<u>3,846,726</u>
Cash flows from financing activities:	
Proceeds from issuance of notes payable	4,862,037
Repayments on notes payable	(3,077,753)
Net cash flows from financing activities	<u>1,784,284</u>
Net change in cash, restricted cash, and cash equivalents	3,341,906
Cash, restricted cash, and cash equivalents, beginning of year	9,811,051
Cash, restricted cash, and cash equivalents, end of year	<u>\$ 13,152,957</u>

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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 unamortized discount on notes payable, 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. Contributed land and equipment are recorded at estimated fair value at the date of the donation. In-kind contributions (primarily Restore inventory, 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.

Grants received from governmental agencies are generally recognized as related costs are incurred.

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 FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

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.

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 3 to 39 years.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

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. In-kind inventory is recorded at its estimated market value when received.

Deferred Revenue – Deferred revenue consists of deposits received on conditional promises to give from sponsors of future home building and totaled \$1,152,263 at June 30, 2021.

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 \$182,298 for the year ended June 30, 2021.

Advertising – Advertising costs are charged to expense as incurred. Advertising expense totaled \$27,083 for the year ended June 30, 2021.

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 benefited. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services benefited. 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.

Accounting Change – During the fiscal year ended June 30, 2021, Habitat began recording receipts of donated home furnishings and building and home improvement materials as contributions. Upon sale of the donated items, a corresponding charge to cost of ReStore sales is recorded. The change increased in-kind contribution revenue by approximately \$2.7 million in fiscal 2021 with a corresponding increase to ReStore cost of sales. There was no effect on net assets or change in net assets at June 30, 2020 or for the year ended June 30, 2020. Habitat believes the change is preferable to more appropriately report contributions and costs of sales.

Recently Adopted Accounting Pronouncement – In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. Habitat adopted the provisions of ASU 2014-09 and the related ASUs as of July 1, 2020 using a modified retrospective approach, which resulted in no cumulative effect adjustment to net assets as of July 1, 2020. There was no change in the timing and amount of revenue recognition as a result of the adoption of this ASU.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 2—Summary of significant accounting policies (continued)

Accounting Policies for Future Pronouncement – In February 2016, 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 statement of financial position 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 statement of activities. This standard will be effective for the fiscal year ending June 30, 2023. 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 27, 2021, 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.

Note 3—Revenue recognition

On July 1, 2020, Habitat adopted Accounting Standards Codification (“ASC”) 606 using the modified retrospective approach. Habitat determined that there was no cumulative effect adjustment to net assets upon adoption of the new revenue standard as of July 1, 2020. Under ASC 606, revenue is recognized when Habitat transfers the promised goods or services to a customer in an amount that reflects consideration that is expected to be received for those goods and services.

Performance Obligations and Revenue Recognition – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue, when, or as, the performance obligation is satisfied. The contract obligation for transfers to homeowners and ReStore sales is generally satisfied at the time these services are provided or when a good is transferred to the customer.

Home Sales – A portion of the Habitat’s revenue is derived from home sales during the year. Due to the nature of contracts, there is no variable consideration and only one performance obligation. Such revenue is conditioned upon meeting a certain performance obligation, and amounts received are recognized as revenue once the requirement has been met. Once construction is complete on a home and closing procedures have been completed, buyers take possession of the home and the performance obligation is considered to have been met. Each house sold has a defined purchase price. Contracts are considered to have commercial substance as they all involve a cash down payment and a signed promissory note, which is paid in accordance with the note terms.

ReStore Revenues – A portion of Habitat’s revenue is derived from ReStore sales during the year. Such revenue is conditioned upon meeting one performance obligation, the sale transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made. Once the sale is made, customers take possession of the goods purchased. These transactions are considered to be contracts with customers as they have commercial substance through the transaction of cash payment in return for the goods purchased. Due to the nature of these transactions, there is no variable consideration and only one performance obligation.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 4—Liquidity and availability

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, 2021:

Financial assets:

Cash and cash equivalents, less escrow accounts	\$ 12,491,762
Grants receivable due in one year	401,506
Sponsor and other receivables	156,496
	<hr/>
Total financial assets, at year-end	13,049,764
Less amounts unavailable for general expenditures within one year, due to:	
Net assets with donor restrictions	(234,766)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,814,998</u>

Note 5—Grants receivable

A summary of grants receivable as of June 30, 2021 is as follows:

Metropolitan Development and Housing Agency	\$ 230,536
Federal Home Loan Bank	137,500
Foundations and other	33,470
	<hr/>
	<u>\$ 401,506</u>

Note 6—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, 2021:

Unconditional promises to give	\$ 241,988
Less allowance for uncollectible contributions	(69,977)
	<hr/>
Net unconditional promises to give	172,011
Less amounts receivable in less than one year, net	(172,011)
	<hr/>
Receivable in one to five years, net	<u>\$ -</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 7—Construction-in-progress – new homes

A summary of new home construction activity for 2021 is as follows:

	<u>Number</u>	<u>Costs</u>
New homes under construction, June 30, 2020	13	\$ 1,338,307
Additional costs incurred on beginning inventory		894,947
New homes started in 2021	47	5,808,505
New homes closed in 2021	<u>(30)</u>	<u>(5,468,928)</u>
New homes under construction, June 30, 2021	<u>30</u>	<u>\$ 2,572,831</u>

Note 8—Property and equipment

A summary of property and equipment as of June 30, 2021 is as follows:

Land and land improvements	\$ 2,917,670
Buildings	5,495,928
Office equipment	441,235
Leasehold improvements	57,502
Vehicles and trailers	546,942
Other	<u>335,065</u>
	9,794,342
Less accumulated depreciation	<u>(1,882,644)</u>
	<u>\$ 7,911,698</u>

Note 9—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, 2021:

Hamilton Hills	\$ 1,302,676
Village by the Creek	1,038,563
Hunters Point	224,322
Dickson County	89,245
Cheatham County	<u>43,283</u>
	<u>\$ 2,698,089</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 10—Mortgage notes receivable

At June 30, 2021, Habitat holds mortgage notes receivable totaling \$61,173,576, 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, 2021:

First mortgages	\$ 45,823,089
Second mortgages	13,496,056
Third mortgages	<u>1,854,431</u>
	61,173,576
Less unamortized discount	<u>(26,791,831)</u>
	<u><u>\$ 34,381,745</u></u>

Following is a table which includes an aging analysis of the recorded investment of past due mortgage notes receivable as of June 30, 2021:

31 - 60 days past due	\$ 350,588
61 - 90 days past due	56,811
Greater than 90 days past due	<u>8,754</u>
Total past due	416,153
Current	<u>60,757,423</u>
	<u><u>\$ 61,173,576</u></u>

Principal payments due on mortgage notes receivable are as follows:

<u>Years Ending June 30,</u>	
2022	\$ 2,190,649
2023	2,430,702
2024	2,452,759
2025	2,460,390
2026	2,475,454
Thereafter (including non-paying second and third mortgages of \$5,323,979)	<u>49,163,622</u>
Notes receivable at face value	61,173,576
Less unamortized discount	<u>(26,791,831)</u>
	<u><u>\$ 34,381,745</u></u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—New Markets Tax Credit intangible assets

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 New Markets Tax Credit (“NMTC”) financing in December 2017, to be amortized over seven years, the period to which the assets apply. Habitat incurred \$13,971 in qualified active low income community business (“QALICB”) services, \$20,000 in audit fees, \$53,554 in asset management fees, and \$23,284 in consulting fees related to its NMTC financing in June 2020, 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, 2021, the balances of NMTC intangible assets and accumulated amortization are as follows:

QALICB guarantor fee	\$ 41,096
CDE audit fee	33,333
Asset management fee	117,954
Consulting fee	<u>49,534</u>
Total intangible assets	241,917
Accumulated NMTC amortization	<u>(82,704)</u>
NMTC intangible assets, net	<u><u>\$ 159,213</u></u>

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, 2021 is as follows:

Beginning balance	\$ 1,201,374
Capital contributed	-
Distributions received	(12,074)
Share of income	<u>12,074</u>
Ending balance	<u><u>\$ 1,201,374</u></u>

In June 2020, Habitat invested, along with three other Habitat affiliates, in a partnership, HHL, with 25% ownership to take advantage of NMTC financing. Habitat invested a combination of cash and construction in progress totaling \$1,111,837, enabling it to secure a 20-year loan in the amount of \$1,521,250 payable to 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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 11—New Markets Tax Credit intangible assets (continued)

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, 2021 is as follows:

Beginning balance	\$ 1,111,837
Capital contributed	-
Distributions received	(11,026)
Share of income	5,467
Ending balance	<u>\$ 1,106,278</u>

The major assets of Harbor Habitat Leverage II, LLC and Harbor Habitat Leverage III, LLC at June 30, 2021 are as follows:

	<u>June 30, 2021</u>	
	<u>Harbor Habitat Leverage II, LLC</u>	<u>Harbor Habitat Leverage III, LLC</u>
Assets:		
Notes receivable	<u>\$ 7,244,463</u>	<u>\$ 4,447,352</u>
Total assets	<u>\$ 7,244,463</u>	<u>\$ 4,447,352</u>

At June 30, 2021, both Harbor Habitat Leverage II, LLC and Harbor Habitat Leverage III, LLC had no liabilities and minimal activity.

Note 12—Notes payable

Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments totaling \$99,309 (at June 30, 2021) with varying maturities through March 2050, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$12,687,261. The notes have an undiscounted balance outstanding of \$23,700,026 at June 30, 2021. 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 \$950,420 has been recognized in 2021 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, 2021 amounted to \$10,832,765.

\$ 12,867,261

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 12—Notes payable (continued)

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$14,478, 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 \$3,051,556 at June 30, 2021. 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, 2021 amounted to \$1,230,423. \$ 1,821,133

Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$75 to \$1,861 through June 2027. 413,551

Notes payable to The Housing Fund, Inc. secured by certain real property, non-interest bearing, payable in 120 to 180 equal monthly principal installments of \$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 \$915,707 at June 30, 2021. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2021 amounted to \$194,474. 721,233

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$4,638, maturing at various times through August 2049. The notes payable have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2021 of \$1,244,525. Contribution revenue of \$117,601 was recognized in 2021 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, 2021 amounted to \$505,554. 738,971

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 12—Notes payable (continued)

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$2,440, 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, 2021 of \$725,897. 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, 2021 amounted to \$316,623.

\$ 409,274

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, 2021 of \$480,689. 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, 2021 amounted to \$200,718.

279,971

Note payable to bank, unsecured at a variable interest rate of 4% below prime (0.0% at June 30, 2021), maturing in June 2022.

90,000

Note payable to bank, secured by certain real property with a net book value of \$7,294,252 at June 30, 2021, at a variable interest rate of 4% below prime (0.0% at June 30, 2021), with a 20-year amortization maturing in October 2023.

3,142,475

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$3,052, maturing at various times through November 2047. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2021 of \$898,963. 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, 2021 amounted to \$377,682.

521,281

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 12—Notes payable (continued)

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$2,988, maturing at various times through April 2051. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2021 of \$1,007,807. Contribution revenue of \$229,445 was recognized in 2021 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, 2021 amounted to \$445,733.

\$ 562,074

Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$5,445, maturing at various times through April 2050. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2021 of \$1,865,371. Contribution revenue of \$839,790 was recognized in 2021 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, 2021 amounted to \$822,931.

1,042,440
\$ 22,609,664

Notes payable are presented in the statements of financial position as follows at June 30, 2021:

Notes payable, secured by mortgages, net of unamortized discount	\$ 18,963,638
Note payable, secured by Harding Place property	3,142,475
Notes payable, unsecured	503,551
	<u>\$ 22,609,664</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 12—Notes payable (continued)

Future principal maturities of notes payable are as follows:

Years Ending June 30,

2022	\$ 2,252,722
2023	2,181,634
2024	4,371,894
2025	1,747,369
2026	1,717,282
Thereafter	<u>25,291,046</u>
Total principal maturities	37,561,947
Debt issuance costs	(25,380)
Amounts representing imputed interest	<u>(14,926,903)</u>
	<u>\$ 22,609,664</u>

Note 13—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% (4.25% at June 30, 2021). The line of credit is secured by real estate. The line of credit has a maturity date of January 2022. At June 30, 2021, no borrowings were outstanding under the line of credit agreement.

Note 14—New Markets Tax Credit joint venture note payable

Habitat has a loan payable to HCF, dated December 20, 2017, as part of a 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, 2021 is \$1,715,000, net of issuance costs of \$43,842. Debt issuance costs of \$53,253 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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 14—New Markets Tax Credit joint venture note payable (continued)

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.

Habitat has a loan payable to HCF, dated June 4, 2020, as part of a NMTC transaction. It is a 20-year loan bearing interest at 0.730945% with semi-annual interest-only payments commencing on December 5, 2020, and continuing until June 5, 2027. Principal and interest payments are to commence on December 5, 2027, due semi-annually to then fully amortize the principal balance over a 12-year period, maturing June 3, 2040.

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 2027 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2021 was \$1,521,250 net of issuance costs of \$78,491. Debt issuance costs of \$82,986 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 owner of USBCDC (the "USBCDC Fund"), and the upstream effective owner of HCF. Under the terms of the Option Agreement, USBCDC Endowment Fund is expected to put its ownership interest in HCF to HHL for \$1,000, during the six-month put period beginning June 4, 2027.

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 15—Paycheck Protection Program

In April 2020, Habitat received a Paycheck Protection Program ("PPP") loan of \$746,625 under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") through its primary banking institution. PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if Habitat does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. Habitat completed the forgiveness application process upon completion of the applicable 24-week period and reflected the original loan amounts as revenues from government grants on the statement of activities for the year ended June 30, 2021.

In February 2021, Habitat obtained a second PPP loan in the amount of \$746,625 under substantially the same terms as the initial PPP loan. This loan is included in deferred grant revenue on the statement of financial position for the year ended June 30, 2021.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 16—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, 2021:

Unamortized discount on notes payable	\$ 14,926,903
Donor restricted contributions	231,526
Unconditional promises to give, net	<u>3,240</u>
	<u>\$ 15,161,669</u>

Note 17—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. Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2021 totaled \$335,688.

Note 18—Commitments and contingencies

In connection with the development of Park Preserve, Edison Park, and Hallmark subdivisions, Habitat has obtained letters of credit totaling \$1,432,500 at June 30, 2021, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2021. The letters of credit expire through April 2022.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$85,083 for the year ended June 30, 2021. A summary of future minimum rental payments as of June 30, 2021 is as follows:

<u>Years Ending June 30,</u>	
2022	\$ 40,568
2023	2,969
2024	<u>615</u>
	<u>\$ 44,152</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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 19—In-kind contributions

In-kind contributions received by Habitat are recorded based on their estimated value. A summary of in-kind contributions is as follows for the year ended June 30, 2021:

ReStore donations	\$ 2,834,746
Building supplies and home appliances	140,680
Mortgage servicing	95,376
Operating supplies	2,465
	<u>\$ 3,073,267</u>

Approximately 2,650 individuals contributed significant amounts of time to Habitat's activities during the year ended June 30, 2021. 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 20—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 \$72,241 for the year ended June 30, 2021.

Note 21—Supplemental cash flow information

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

Supplemental Cash Flow Information:

Interest paid	<u>\$ 23,102</u>
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Supplemental Schedule of Noncash Investing and Financing Activities:

Issuance of non-interest bearing mortgage loans	\$ 5,421,380
Discount on non-interest bearing mortgage loans	<u>(2,449,242)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 2,972,138</u>

Note 22—Related parties

At June 30, 2021, Habitat owed notes payable, net of discounts, totaling approximately \$9,115,829 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 FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

Note 22—Related parties (continued)

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 year ended June 30, 2021, Habitat contributed \$106,340 to Habitat International.

Habitat has received Self-Help Homeownership Opportunity Program 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 year ended June 30, 2021, Habitat was granted \$286,945. At June 30, 2021, the balances of the loans totaled \$413,551.

Note 23—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak has caused a material, adverse impact on the economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to Habitat, its performance, and its financial results.