

HABITAT FOR HUMANITY OF GREATER NASHVILLE

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

HABITAT FOR HUMANITY OF GREATER NASHVILLE

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1-2

FINANCIAL STATEMENTS

Statements of Financial Position3
Statements of Activities.....4-5
Statements of Functional Expenses6-7
Statements of Cash Flows8
Notes to the Financial Statements9-26

Report of Independent Auditor

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Nashville as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Greater Nashville and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Greater Nashville's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Greater Nashville's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cherry Bekaert LLP

Nashville, Tennessee
October 19, 2022

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents, including escrow accounts of \$883,276 and \$585,080, respectively	\$ 13,852,413	\$ 13,076,842
Grants receivable	911,299	401,506
Sponsor and other receivables, net of allowance of \$56,034 and \$69,977, respectively	107,857	172,011
Inventory - ReStores and other	837,550	705,455
Construction-in-progress - new homes	4,338,222	2,572,831
Property and equipment, net	10,902,529	7,911,698
Land held for development	4,521,073	2,698,089
Mortgage notes receivable, net of discounts of \$25,878,080 and \$26,791,831, respectively	33,216,897	34,381,745
New Markets Tax Credit intangible assets, net	124,654	159,213
New Markets Tax Credit joint venture investment	2,307,652	2,307,652
New Markets Tax Credit joint venture cash	63,640	76,115
Other assets	307,310	370,112
Total Assets	<u>\$ 71,491,096</u>	<u>\$ 64,833,269</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,364,041	\$ 860,107
Deferred revenue	3,594,032	1,152,263
Escrow accounts	624,728	588,280
Deferred grant revenue, Paycheck Protection Program loan	-	746,625
Notes payable, secured by mortgages, net of unamortized discount	17,241,081	18,963,638
Note payable, secured by Harding Place and Lebanon property	5,837,356	3,142,475
Notes payable, unsecured	469,991	503,551
New Markets Tax Credit joint venture note payable, net of issuance costs	3,120,723	3,113,917
Unearned revenue on mortgage loans	3,925,409	3,985,314
Total Liabilities	<u>36,177,361</u>	<u>33,056,170</u>
Net Assets:		
Net assets without donor restrictions	21,095,888	16,615,430
Net assets with donor restrictions	14,217,847	15,161,669
Total Net Assets	<u>35,313,735</u>	<u>31,777,099</u>
Total Liabilities and Net Assets	<u>\$ 71,491,096</u>	<u>\$ 64,833,269</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Transfers to homeowners	\$ 2,484,000	\$ -	\$ 2,484,000
Grant income	4,100,617	-	4,100,617
Contributions	1,789,703	247,284	2,036,987
ReStore sales	3,143,910	-	3,143,910
Mortgage loan discount amortization	1,961,584	-	1,961,584
Interest contributions	-	1,340,048	1,340,048
Other income	1,076,542	-	1,076,542
Contributions of nonfinancial assets	3,483,420	-	3,483,420
Interest income	54,582	-	54,582
New Markets Tax Credit investment income	23,192	-	23,192
	<u>18,117,550</u>	<u>1,587,332</u>	<u>19,704,882</u>
Net assets released from restrictions	2,531,154	(2,531,154)	-
Total Support and Revenue	<u>20,648,704</u>	<u>(943,822)</u>	<u>19,704,882</u>
Expenses:			
Program services	13,906,876	-	13,906,876
Supporting services	2,261,370	-	2,261,370
Total Expenses	<u>16,168,246</u>	<u>-</u>	<u>16,168,246</u>
Change in net assets from operations	4,480,458	(943,822)	3,536,636
Change in net assets	4,480,458	(943,822)	3,536,636
Net assets, beginning of year	16,615,430	15,161,669	31,777,099
Net assets, end of year	<u>\$ 21,095,888</u>	<u>\$ 14,217,847</u>	<u>\$ 35,313,735</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, 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
Contributions of nonfinancial assets	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.	201,245	-	201,245
Change in net assets	2,429,027	248,738	2,677,765
Net assets, beginning of year	14,186,403	14,912,931	29,099,334
Net assets, end of year	<u>\$ 16,615,430</u>	<u>\$ 15,161,669</u>	<u>\$ 31,777,099</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, 2022

	Program Services					Supporting Services			
	Homeowner Support and Educational Construction	Ministries	Discounts on Mortgage Originations	ReStore Operations	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Construction costs - new homes	\$ 2,436,612	\$ -	\$ -	\$ -	\$ 2,436,612	\$ -	\$ -	\$ -	\$ 2,436,612
Costs of ReStore sales	-	-	-	3,026,036	3,026,036	-	-	-	3,026,036
Salaries and related expenses	879,703	714,620	-	1,433,692	3,028,015	1,001,022	467,653	1,468,675	4,496,690
Mortgage discounts	-	-	1,237,863	-	1,237,863	-	-	-	1,237,863
Interest and discount amortization	2,378,480	-	-	-	2,378,480	-	40,900	40,900	2,419,380
Depreciation	93,185	42,549	-	146,571	282,305	55,893	21,530	77,423	359,728
Office expenses	58,843	56,968	-	180,110	295,921	68,867	33,593	102,460	398,381
Travel, meals, and entertainment	7,202	3,119	-	14,701	25,022	46,211	16,946	63,157	88,179
Repairs and maintenance	68,960	12,489	-	39,443	120,892	13,353	6,704	20,057	140,949
Other	22,095	22,455	-	13,323	57,873	3,617	25,745	29,362	87,235
Small tools and equipment	38,321	182	-	52,940	91,443	2,225	105	2,330	93,773
Legal and professional	184,369	24,481	-	6,069	214,919	16	86,801	86,817	301,736
Redevelopment costs	119,173	-	-	-	119,173	-	-	-	119,173
Lease expense	3,239	7,880	-	118,920	130,039	10,403	1,784	12,187	142,226
Printing and public relations	301	3,658	-	13,978	17,937	98,674	312	98,986	116,923
Taxes and insurance	54,065	20,522	-	70,009	144,596	24,626	9,577	34,203	178,799
Recruiting and training	4,341	1,718	-	6,743	12,802	52,883	20,157	73,040	85,842
Tithe to Habitat International	105,025	-	-	-	105,025	-	-	-	105,025
Bank and credit card fees	13,695	5	-	55,725	69,425	9,266	10,065	19,331	88,756
Vehicle expenses	44,140	291	-	39,339	83,770	5,303	-	5,303	89,073
Sponsor and volunteer appreciation	5,291	29	-	990	6,310	14,884	3,231	18,115	24,425
Advertising	6,003	749	-	15,666	22,418	26,176	350	26,526	48,944
New Markets Tax Credit amortization	-	-	-	-	-	-	34,559	34,559	34,559
Special events	-	-	-	-	-	47,939	-	47,939	47,939
	<u>\$ 6,523,043</u>	<u>\$ 911,715</u>	<u>\$ 1,237,863</u>	<u>\$ 5,234,255</u>	<u>\$ 13,906,876</u>	<u>\$ 1,481,358</u>	<u>\$ 780,012</u>	<u>\$ 2,261,370</u>	<u>\$ 16,168,246</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, 2021

	Program Services					Supporting Services			
	Homeowner Support and Educational Construction	Discounts on Mortgage Originations	ReStore Operations	Total Program Services		Fundraising	Management and General	Total Supporting Services	Total
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 these statements.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,536,636	\$ 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	(1,340,048)	(2,137,256)
Transfers to homeowners	(1,246,137)	(2,972,138)
Depreciation and amortization	394,287	383,790
Bad debt expense	(1,916)	717
Mortgage loan discount amortization	(1,961,584)	(1,582,774)
Amortization of discount on notes payable and issuance costs	2,396,163	1,121,538
New Markets Tax Credit investment income allocation	(23,192)	(17,541)
Changes in operating assets and liabilities:		
Grants receivable	(509,793)	651,497
Sponsor and other receivables	66,070	18,171
Construction-in-progress - new homes	(1,765,391)	(1,234,524)
Land held for development	(1,822,984)	589,723
Inventory - ReStores and other	(132,095)	(89,900)
Other assets	62,802	12,461
Accounts payable and accrued expenses	503,934	91,212
Deferred revenue	1,695,144	426,740
Escrow accounts	36,448	(62,567)
Net cash flows from operating activities	<u>(111,656)</u>	<u>(2,289,104)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,350,559)	(121,395)
Mortgages financed	(256,000)	-
Mortgage payments received	4,568,664	3,945,021
New Markets Tax Credit joint venture investment net distribution	23,192	23,100
Net cash flows from investing activities	<u>985,297</u>	<u>3,846,726</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	\$ 6,191,217	\$ 4,862,037
Repayments on notes payable	(6,301,762)	(3,077,753)
Net cash flows from financing activities	<u>(110,545)</u>	<u>1,784,284</u>
Net change in cash, restricted cash, and cash equivalents	763,096	3,341,906
Cash, cash equivalents and NMTC joint venture cash, beginning of year	<u>13,152,957</u>	<u>9,811,051</u>
Cash, cash equivalents and NMTC joint venture cash, end of year	<u>\$ 13,916,053</u>	<u>\$ 13,152,957</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, 2022 AND 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, 2022 AND 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, 2022 AND 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 \$3,594,032 and \$1,152,263 at June 30, 2022 and 2021, respectively.

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 \$203,051 and \$182,298 for the years ended June 30, 2022 and 2021, respectively.

Advertising – Advertising costs are charged to expense as incurred. Advertising expense totaled \$48,944 and \$27,083 for the years ended June 30, 2022 and 2021, 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 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.

Recently Adopted Accounting Pronouncement – In September 2020, FASB issued ASU 2020-02, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires contributed nonfinancial assets be presented as a separate line item in the statement of activities, and the disclosure of a disaggregation of the amount of contributed nonfinancial assets and a description of the valuation techniques and inputs used to arrive at a fair value measure.

Accounting Policies for Future Pronouncements – 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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

Subsequent Events – Habitat evaluated subsequent events through October 19, 2022, 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 ASC 606 using the modified retrospective approach. Habitat determined 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 the Organization'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.

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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 4—Liquidity and availability (continued)

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:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents, less escrow accounts	\$ 12,969,137	\$ 12,491,762
Grants receivable due in one year	911,299	401,506
Sponsor and other receivables	<u>106,496</u>	<u>156,496</u>
Total financial assets, at year-end	13,986,932	13,049,764
Less amounts unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions	<u>(329,375)</u>	<u>(234,766)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,657,557</u>	<u>\$ 12,814,998</u>

Note 5—Grants receivable

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

	<u>2022</u>	<u>2021</u>
Metropolitan Development and Housing Agency	\$ 385,692	\$ 230,536
Habitat for Humanity of Tennessee	296,000	-
Federal Home Loan Bank	-	137,500
Foundations and other	<u>229,607</u>	<u>33,470</u>
	<u>\$ 911,299</u>	<u>\$ 401,506</u>

Note 6—Sponsor and other receivables

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

	<u>2022</u>	<u>2021</u>
Unconditional promises to give	\$ 163,891	\$ 241,988
Less allowance for uncollectible contributions	<u>(56,034)</u>	<u>(69,977)</u>
Net unconditional promises to give	107,857	172,011
Less amounts receivable in less than one year, net	<u>(107,857)</u>	<u>(172,011)</u>
Receivable in one to five years, net	<u>\$ -</u>	<u>\$ -</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 7—Construction-in-progress – new homes

A summary of new home construction activity for 2022 is as follows:

	<u>Number</u>	<u>Costs</u>
New homes under construction, June 30, 2021	30	\$ 2,572,831
Additional costs incurred on beginning inventory		3,369,725
New homes started in 2022	6	832,278
New homes closed in 2022	(12)	(2,436,612)
	<u>24</u>	<u>\$ 4,338,222</u>

Note 8—Property and equipment

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

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 4,644,203	\$ 2,917,670
Buildings	7,068,207	5,495,928
Office equipment	478,500	441,235
Leasehold improvements	57,502	57,502
Vehicles and trailers	552,667	546,942
Other	335,065	335,065
	13,136,144	9,794,342
Less accumulated depreciation	(2,233,615)	(1,882,644)
	<u>\$ 10,902,529</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:

	<u>2022</u>	<u>2021</u>
Hamilton Hills	\$ 1,315,433	\$ 1,302,676
Village by the Creek	2,516,582	1,038,563
Aldrich Lane	310,000	-
Hunters Point	301,809	224,322
Dickson County	77,249	89,245
Cheatham County	-	43,283
	<u>\$ 4,521,073</u>	<u>\$ 2,698,089</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 10—Mortgage notes receivable

At June 30, 2022 and 2021, Habitat holds mortgage notes receivable totaling \$59,094,977 and \$61,173,576, 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 9.0% 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>2022</u>	<u>2021</u>
First mortgages	\$ 44,266,472	\$ 45,823,089
Second mortgages	12,820,292	13,496,056
Third mortgages	<u>2,008,213</u>	<u>1,854,431</u>
	59,094,977	61,173,576
Less unamortized discount	<u>(25,878,080)</u>	<u>(26,791,831)</u>
	<u>\$ 33,216,897</u>	<u>\$ 34,381,745</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>2022</u>	<u>2021</u>
31 - 60 days past due	\$ 468,069	\$ 350,588
61 - 90 days past due	179,127	56,811
Greater than 90 days past due	<u>230,699</u>	<u>8,754</u>
Total past due	877,895	416,153
Current	<u>58,217,082</u>	<u>60,757,423</u>
	<u>\$ 59,094,977</u>	<u>\$ 61,173,576</u>

Principal payments due on mortgage notes receivable are as follows:

Years Ending June 30,

2023	\$ 2,186,186
2024	2,393,074
2025	2,426,130
2026	2,441,737
2027	2,438,897
Thereafter (including non-paying second and third mortgages of \$5,016,645)	<u>47,208,953</u>
Notes receivable at face value	59,094,977
Less unamortized discount	<u>(25,878,080)</u>
	<u>\$ 33,216,897</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11—New Market Tax Credits 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, the balances of NMTC intangible assets and accumulated amortization are as follows:

	<u>2022</u>	<u>2021</u>
QALICB guarantor fee	\$ 41,096	\$ 41,096
CDE audit fee	33,333	33,333
Asset management fee	117,954	117,954
Consulting fee	<u>49,534</u>	<u>49,534</u>
Total intangible assets	241,917	241,917
Accumulated NMTC amortization	<u>(117,263)</u>	<u>(82,704)</u>
NMTC intangible assets, net	<u>\$ 124,654</u>	<u>\$ 159,213</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 is as follows:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 1,201,374	\$ 1,201,374
Capital contributed	-	-
Distributions received	(12,074)	(12,074)
Share of income	<u>12,074</u>	<u>12,074</u>
Ending balance	<u>\$ 1,201,374</u>	<u>\$ 1,201,374</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, 2022 AND 2021

Note 11—New Market Tax Credits 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 is as follows:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 1,106,278	\$ 1,111,837
Capital contributed	-	-
Distributions received	(11,118)	(11,026)
Share of income	11,118	5,467
Ending balance	<u>\$ 1,106,278</u>	<u>\$ 1,106,278</u>

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

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Harbor Habitat Leverage II, LLC</u>	<u>Harbor Habitat Leverage III, LLC</u>	<u>Harbor Habitat Leverage II, LLC</u>	<u>Harbor Habitat Leverage III, LLC</u>
Assets:				
Notes receivable	\$ 7,244,463	\$ 4,447,352	\$ 7,244,463	\$ 4,447,352
Total assets	<u>\$ 7,244,463</u>	<u>\$ 4,447,352</u>	<u>\$ 7,244,463</u>	<u>\$ 4,447,352</u>

At June 30, 2022, both Harbor Habitat Leverage II, LLC and Harbor Habitat Leverage III, LLC had no liabilities and minimal activity. At June 30, 2021, both CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC had no liabilities and minimal activity.

Note 12—Notes payable

	<u>2022</u>	<u>2021</u>
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments totaling \$88,342 (at June 30, 2022) with varying maturities through June 2052, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$11,936,446. The notes have an undiscounted balance outstanding of \$22,069,975 and \$23,700,026 at June 30, 2022 and 2021, 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 \$279,535 and \$950,420 has been recognized in 2022 and 2021, 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, 2022 and 2021 amounted to \$10,133,529 and \$10,832,765, respectively.	\$ 11,936,446	\$ 12,867,261

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 12—Notes payable (continued)

	<u>2022</u>	<u>2021</u>
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$-0-, 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 \$-0- and \$3,051,556 at June 30, 2022 and 2021, 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, 2022 and 2021 amounted to \$-0- and \$1,230,423, respectively.	\$ -	\$ 1,821,133
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$72 to \$1,861 through June 2028.	379,991	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 \$688,088 and \$915,707, at June 30, 2022 and 2021, respectively. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2022 and 2021 amounted to \$149,824 and \$194,474, respectively.	538,265	721,233
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$6,500, maturing at various times through March 2051. The notes payable have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2022 and 2021 of \$1,792,978 and \$1,244,525, respectively. Contribution revenue of \$264,404 and \$117,601 was recognized in 2022 and 2021, 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, 2022 and 2021 amounted to \$742,411 and \$505,554, respectively.	1,050,567	738,971

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 12—Notes payable (continued)

	<u>2022</u>	<u>2021</u>
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, 2022 and 2021 of \$696,612 and \$725,897, 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, 2022 and 2021 amounted to \$303,835 and \$316,623, respectively.	\$ 392,777	\$ 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, 2022 and 2021 of \$459,611 and \$480,689, 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, 2022 and 2021 amounted to \$192,019 and \$200,718, respectively.	267,592	279,971
Note payable to bank, unsecured at a variable interest rate of 4% below prime (0.75% at June 30, 2022), maturing in March 2023.	90,000	-
Note payable to bank, unsecured at a variable interest rate of 4% below prime (0.0% at June 30, 2021), matured in June 2022.	-	90,000
Note payable to bank, secured by certain real property with a net book value of \$7,037,750 at June 30, 2022, at a variable interest rate of 4% below prime (0.75% at June 30, 2022), with a 20-year amortization maturing in October 2023.	2,837,356	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, 2022 and 2021 of \$862,338 and \$898,963, respectively. 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, 2022 and 2021 amounted to \$362,346 and \$377,682, respectively.	499,992	521,281

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 12—Notes payable (continued)

	<u>2022</u>	<u>2021</u>
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$4,560, maturing at various times through July 2051. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2022 and 2021 of \$1,505,979 and \$1,007,807, respectively. Contribution revenue of \$240,259 and \$229,444 was recognized in 2022 and 2021, 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, 2022 and 2021 amounted to \$665,236 and \$445,733, respectively.	\$ 840,743	\$ 562,074
Note payable to bank, secured by certain real property with a net book value of \$3,286,012 at June 30, 2022, at a variable interest rate of 4% below prime (0.75% at June 30, 2022), with a 20-year amortization maturing in May 2029.	3,000,000	-
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$1,782, maturing at various times through May 2049. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding of \$559,089 at June 30, 2022. Contribution revenue of \$239,550 was recognized in 2022 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, 2022 amounted to \$234,330.	324,759	-
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling \$7,434, 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 of \$2,494,883 and \$1,865,371 at June 30, 2022 and 2021, respectively. Contribution revenue of \$316,300 and \$839,481 was recognized in 2022 and 2021, 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, 2022 and 2021 amounted to \$1,104,943 and \$822,931, respectively.	1,389,940	1,042,440
	<u>\$ 23,548,428</u>	<u>\$ 22,609,664</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 12—Notes payable (continued)

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

	<u>2022</u>	<u>2021</u>
Notes payable, secured by mortgages, net of unamortized discount	\$ 17,241,081	\$ 18,963,638
Note payable, secured by Harding Place and Lebanon property	5,837,356	3,142,475
Notes payable, unsecured	469,991	503,551
	<u>\$ 23,548,428</u>	<u>\$ 22,609,664</u>

Future principal maturities of notes payable are as follows:

<u>Years Ending June 30,</u>	
2023	\$ 2,094,154
2024	4,299,681
2025	1,682,646
2026	1,653,142
2027	1,613,834
Thereafter	<u>26,107,946</u>
Total principal maturities	37,451,403
Debt issuance costs	(14,503)
Amounts representing imputed interest	<u>(13,888,472)</u>
	<u>\$ 23,548,428</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% (5.75% at June 30, 2022). The line of credit is secured by real estate. The line of credit has a maturity date of February 2023. At June 30, 2022 and 2021, no borrowings were outstanding under the line of credit agreement.

Note 14—NMTC 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, 2022 and 2021 is \$1,715,000, net of issuance costs of \$41,185 and \$43,842, respectively. 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, 2022 AND 2021

Note 14—NMTC 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, 2022 and 2021 was \$1,521,250 net of issuance costs of \$74,342 and \$78,491, respectively. 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 ("the 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. 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, 2022.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 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:

	<u>2022</u>	<u>2021</u>
Unamortized discount on notes payable	\$ 13,888,472	\$ 14,926,903
Donor restricted contributions	229,375	231,526
Unconditional promises to give, net	100,000	3,240
	<u>\$ 14,217,847</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 (FDIC). Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2022 and 2021 totaled \$95,025 and \$335,688, respectively.

Note 18—Commitments and contingencies

In connection with the development of Park Preserve and Western Avenue subdivisions, Habitat has obtained letters of credit totaling \$1,425,000 and \$1,432,500 at June 30, 2022 and 2021, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2022 and 2021. The letters of credit expire through April 2023.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$95,815 and \$85,083 for the years ended June 30, 2022 and 2021, respectively. A summary of future minimum rental payments as of June 30, 2022 is as follows:

<u>Years Ending June 30,</u>	
2023	\$ 63,826
2024	22,562
2025	16,632
2026	4,158
	<u>\$ 107,178</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, 2022 AND 2021

Note 19—Contributed nonfinancial assets

Contributed nonfinancial assets received by Habitat are recorded based on their estimated value. A summary of contributed nonfinancial assets is as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
ReStore donations	\$ 3,210,367	\$ 2,834,746
Building supplies and home appliances	109,117	140,680
Mortgage servicing	96,576	95,376
Operating supplies	67,360	2,465
	<u>\$ 3,483,420</u>	<u>\$ 3,073,267</u>

Habitat recognized nonfinancial assets within revenue, including ReStore donations, building supplies and mortgage servicing. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Various donors contributed products to the Restore for sale to customers. Habitat valued the contribution based upon its sales price of the contributed assets.

Various donors contribute building supplies and home appliances that are used in constructing homes transferred to homeowners. Habitat valued the contribution based upon current costs to purchase.

A financial institution services mortgages on behalf of Habitat. Habitat valued the contribution based upon estimated costs to pay a third party servicer.

Approximately 4,250 and 2,650 individuals contributed significant amounts of time to Habitat's activities during the years ended June 30, 2022 and 2021, 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 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 \$70,462 and \$72,241 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF GREATER NASHVILLE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 21—Supplemental cash flow information

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

Supplemental Cash Flow Information:

	<u>2022</u>	<u>2021</u>
Interest paid	\$ 23,195	\$ 23,102

Supplemental Schedule of Noncash Investing and Financing Activities:

	<u>2022</u>	<u>2021</u>
Issuance of non-interest bearing mortgage loans	\$ 2,484,000	\$ 5,421,380
Discount on non-interest bearing mortgage loans	(1,237,863)	(2,449,242)
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 1,246,137	\$ 2,972,138

Note 22—Related parties

At June 30, 2022 and 2021, Habitat owed notes payable, net of discounts, totaling approximately \$9,419,460 and \$9,115,829, 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, 2022 and 2021, Habitat contributed \$105,025 and \$106,340, respectively, 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 years ended June 30, 2022 and 2021, Habitat was granted \$180,895 and \$286,945, respectively. At June 30, 2022 and 2021, the balances of the loans totaled \$379,991 and \$413,551, respectively.