HABITAT FOR HUMANITY OF GREATER NASHVILLE

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

HABITAT FOR HUMANITY OF GREATER NASHVILLE

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Report of Independent Auditor

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

We have audited the accompanying financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Nashville, as of June 30, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 21, toward the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. During 2020, there have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses. Although it is not possible to reliably estimate the length or severity of this outbreak and, hence, its financial impact, any significant reduction in public support and resources caused by COVID-19 could negatively affect support and revenue and have other material adverse effects on Habitat for Humanity of Greater Nashville. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
September 23, 2020

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents, including escrow accounts of $670,691 and $637,865, respectively	$ 9,718,845	$ 6,302,060
Grants receivable	1,053,003	794,000
Sponsor and other receivables, net of allowance of $71,043 and $63,624, respectively	190,899	515,314
Inventory - ReStores and other	615,555	675,158
Real estate held for sale	-	162,035
Construction-in-progress - new homes	1,338,307	2,102,498
Property and equipment, net	8,139,533	8,400,509
Land held for development	3,287,812	3,687,144
Mortgage notes receivable, net of discounts of $25,963,251 and $24,544,835, respectively	33,518,169	31,473,983
New Markets Tax Credit ("NMTC") intangible assets, net	193,773	104,064
NMTC joint venture investment	2,313,211	2,781,507
NMTC joint venture cash	92,206	52,883
Other assets	382,573	475,662
Total Assets	$ 60,843,886	$ 57,526,817
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 768,895	$ 986,793
Deferred revenue	725,523	732,391
Escrow accounts	650,847	619,411
Paycheck Protection Program loan	746,625	-
Notes payable, secured by mortgages, net of unamortized discount	17,904,847	17,264,029
Note payable, secured by Harding Place property	3,447,595	3,752,714
Notes payable, unsecured	495,462	415,652
NMTC joint venture note payable, net of issuance costs	3,107,111	3,530,289
Unearned revenue on mortgage loans	3,897,647	3,992,894
Total Liabilities	31,744,552	31,294,173
Net Assets:		
Net assets without donor restrictions	14,186,403	11,172,374
Net assets with donor restrictions	14,912,931	15,060,270
Total Net Assets	29,099,334	26,232,644
Total Liabilities and Net Assets	$ 60,843,886	$ 57,526,817

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR 2019)

	2020			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2019 Total**
Support and Revenue:				
Transfers to homeowners	$ 7,521,500	$ -	$ 7,521,500	$ 6,385,400
Grant income	5,484,507	-	5,484,507	4,625,165
Contributions	1,809,586	540,768	2,350,354	2,994,017
ReStore sales	2,096,395	-	2,096,395	2,372,264
Mortgage loan discount amortization	1,526,858	-	1,526,858	1,466,743
Interest contributions	-	1,518,676	1,518,676	1,398,397
Other income	588,121	-	588,121	392,031
In-kind contributions	330,489	-	330,489	175,408
Forgiveness of debt	299,867	-	299,867	-
Interest income	55,680	-	55,680	47,939
NMTC investment income	12,074	-	12,074	50,551
Gain on real estate held for sale	9,461	-	9,461	49,639
	19,734,538	2,059,444	21,793,982	19,957,554
Net assets released from restrictions	2,206,783	(2,206,783)	-	-
Total Support and Revenue	21,941,321	(147,339)	21,793,982	19,957,554
Expenses:				
Program services	16,374,995	-	16,374,995	14,223,268
Supporting services	2,552,297	-	2,552,297	2,292,071
Total Expenses	18,927,292	-	18,927,292	16,515,339
Change in net assets	3,014,029	(147,339)	2,866,690	3,442,215
Net assets, beginning of year	11,172,374	15,060,270	26,232,644	22,790,429
Net assets, end of year	$ 14,186,403	$ 14,912,931	$ 29,099,334	$ 26,232,644

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES

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

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services					Supporting Services			
	Construction	Homeowner Support and Educational Ministries	Discounts on Mortgage Originations	ReStore Operations	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Construction costs - new homes	$ 7,257,000	$ -	$ -	$ -	$ 7,257,000	$ -	$ -	$ -	$ 7,257,000
Salaries and related expenses	844,968	808,921	-	1,265,769	2,919,658	958,617	455,599	1,414,216	4,333,874
Mortgage discounts	-	-	3,115,212	-	3,115,212	-	-	-	3,115,212
Interest and discount amortization	858,301	3,530	-	14,708	876,539	4,412	26,464	30,876	907,415
Depreciation	87,291	32,982	-	169,628	289,901	45,396	16,771	62,167	352,068
Down payment assistance	-	325,143	-	-	325,143	-	-	-	325,143
Office expenses	48,437	40,346	-	145,972	234,755	60,544	23,056	83,600	318,355
Travel, meals, and entertainment	7,719	7,259	-	12,890	27,868	249,620	13,379	262,999	290,867
Repairs and maintenance	207,803	2,767	-	19,162	229,732	3,815	1,259	5,074	234,806
Other	59,525	23,220	-	9,852	92,597	91,723	38,177	129,900	222,497
Small tools and equipment	125,496	-	-	81,151	206,647	13,238	-	13,238	219,885
Legal and professional	64,112	21,502	-	716	86,330	24,375	100,799	125,174	211,504
Redevelopment costs	183,782	-	-	-	183,782	-	-	-	183,782
Lease expense	48,425	8,856	-	75,767	133,048	14,479	2,426	16,905	149,953
Printing and public relations	50	5,422	-	4,388	9,860	129,239	506	129,745	139,605
Taxes and insurance	38,267	15,816	-	47,904	101,987	17,676	6,518	24,194	126,181
Recruiting and training	8,410	2,218	-	12,874	23,502	58,336	20,324	78,660	102,162
Tithe to Habitat International	111,998	-	-	-	111,998	-	-	-	111,998
Bank and credit card fees	33,902	-	-	34,434	68,336	7,213	9,426	16,639	84,975
Vehicle expenses	25,891	-	-	32,029	57,920	1,526	-	1,526	59,446
Sponsor and volunteer appreciation	9,511	434	-	1,638	11,583	55,520	172	55,692	67,275
Advertising	1,335	2,481	-	7,781	11,597	29,460	219	29,679	41,276
NMTC amortization	-	-	-	-	-	-	36,655	36,655	36,655
Special events	-	-	-	-	-	35,358	-	35,358	35,358
	$ 10,022,223	$ 1,300,897	$ 3,115,212	$ 1,936,663	$ 16,374,995	$ 1,800,547	$ 751,750	$ 2,552,297	$ 18,927,292

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 2,866,690	$ 3,442,215
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
(Gain) loss on disposal of property and equipment	(800)	9,654
Interest contributions	(1,518,676)	(1,398,397)
Transfers to homeowners	(4,079,790)	(3,228,277)
Depreciation and amortization	373,168	380,807
Bad debt expense	10,639	-
Gain on real estate held for sale	(9,461)	(49,639)
Mortgage loan discount amortization	(1,526,858)	(1,466,743)
Amortization of discount on notes payable and issuance costs	882,640	943,881
NMTC investment income allocation	(12,074)	(50,551)
Gain on cancellation of NMTC financing	(299,867)	-
Changes in operating assets and liabilities:		
Grants receivable	(259,003)	(486,500)
Sponsor and other receivables	313,776	(171,507)
Construction-in-progress - new homes	764,191	(1,229,541)
Land held for development	399,332	(1,687,500)
Inventory - ReStores and other	59,603	203,546
Other assets	93,089	(26,243)
Accounts payable and accrued expenses	(217,898)	586,250
Deferred revenue	(6,868)	65,391
Escrow accounts	31,436	70,972
Net cash flows from operating activities	(2,136,731)	(4,092,182)
Cash flows from investing activities:		
Improvements to real estate held for sale	(2,105)	(33,642)
Purchases of property and equipment	(91,092)	(321,887)
Proceeds from disposal of property	174,401	299,482
Mortgage payments received	3,467,215	3,061,187
NMTC joint venture investment	(1,111,837)	-
Acquisition of NMTC intangible assets	(110,809)	-
NMTC joint venture investment net distribution	12,074	26,375
Net cash flows from investing activities	2,337,847	3,031,515

HABITAT FOR HUMANITY OF GREATER NASHVILLE

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from financing activities:		
Proceeds from issuance of PPP Loan	$ 746,625	$ -
Proceeds from issuance of notes payable	3,489,898	3,493,530
Proceeds from NMTC note payable	1,521,250	-
Cash paid for debt issuance costs	(82,986)	-
Repayments on notes payable	(2,419,795)	(2,721,096)
Net cash flows from financing activities	3,254,992	772,434
Net increase (decrease) in cash and cash equivalents	3,456,108	(288,233)
Cash, cash equivalents and restricted cash, beginning of year	6,354,943	6,643,176
Cash, cash equivalents and restricted cash, end of year	$ 9,811,051	$ 6,354,943

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.

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

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

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

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

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Deferred Revenue – Deferred revenue consists of deposits received on conditional promises to give from sponsors of future home building and totaled $725,523 and $732,391 at June 30, 2020 and 2019, respectively.

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

Program Services – Program services include construction, ReStore operations, homeowner support, and educational ministries, and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of new homes transferred, which have an average cost of $168,767 and $156,393 for the years ended June 30, 2020 and 2019, respectively.

Advertising – Advertising costs are charged to expense as incurred. Advertising expense totaled $41,276 and $34,608 for the years ended June 30, 2020 and 2019, respectively.

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

Functional Allocation of Expenses – The costs of providing program and supporting services have been reported on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services 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 Pronouncements – In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. Habitat evaluated the new standard and determined that the accounting standard did not require a change to Habitat's practices for recording contributions.

Note 2—Summary of significant accounting policies (continued)

In November 2016, FASB issued accounting standard ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard was adopted for the year ended June 30, 2020.

Accounting Policies for Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for Habitat for the year ending June 30, 2021. Habitat is currently evaluating the effect of the implementation of this new standard.

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, 2022. 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 23, 2020, 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—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:

	2020	2019
Financial assets:		
Cash and cash equivalents, less escrow accounts	$ 9,048,154	$ 5,664,195
Grants receivable due in one year	1,053,003	794,000
Sponsor and other receivables	175,533	485,314
Total financial assets, at year-end	10,276,690	6,943,509
Less amounts unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions	(1,019,427)	(1,832,240)
Financial assets available to meet cash needs for general expenditures within one year	$ 9,257,263	$ 5,111,269

Note 4—Grants receivable

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

	2020	2019
Metropolitan Development and Housing Agency	$ 659,191	$ 92,750
Federal Home Loan Bank	361,250	701,250
Foundations and other	32,562	-
	$ 1,053,003	$ 794,000

Note 5—Unconditional promises to give

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

	2020	2019
Unconditional promises to give	$ 261,942	$ 578,938
Less allowance for uncollectible contributions	(71,043)	(63,624)
Net unconditional promises to give	190,899	515,314
Less amounts receivable in less than one year, net	(180,899)	(485,314)
Receivable in one to five years, net	$ 10,000	$ 30,000

Note 6—Construction-in-progress – new homes

A summary of new home construction activity for 2020 is as follows:

	Number	Costs
New homes under construction, June 30, 2019	22	$ 2,102,498
Additional costs incurred on beginning inventory		1,088,670
New homes started in 2020	34	5,404,139
New homes closed in 2020	(43)	(7,257,000)
New homes under construction, June 30, 2020	13	$ 1,338,307

Note 7—Property and equipment

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

	2020	2019
Land and land improvements	$ 2,897,950	$ 2,897,950
Buildings	5,496,675	5,496,675
Office equipment	363,976	308,609
Leasehold improvements	57,502	57,502
Vehicles and trailers	524,476	516,458
Other	350,065	364,911
	9,690,644	9,642,105
Less accumulated depreciation	(1,551,111)	(1,241,596)
	$ 8,139,533	$ 8,400,509

Note 8—Land held for development

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

	2020	2019
Hamilton Hills	$ 1,138,567	$ 1,063,650
Village by the Creek	711,144	-
Park Preserve	634,959	1,944,739
Ewing Drive	451,701	334,286
Wilson County	156,649	101,729
Dickson County	108,227	125,890
Cheatham County	86,565	116,850
	$ 3,287,812	$ 3,687,144

Note 9—Mortgage notes receivable

At June 30, 2020 and 2019, Habitat holds mortgage notes receivable totaling $59,481,420 and $56,018,818, respectively, at face value generally with original maturities of 30 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The notes have been discounted at various interest rates ranging from 4.5% to 9% over the lives of the mortgages. Mortgages are reported net of unamortized discount.

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

	2020	2019
First mortgages	$ 44,678,431	$ 42,163,826
Second mortgages	12,810,533	12,355,244
Third mortgages	1,992,456	1,499,748
	59,481,420	56,018,818
Less unamortized discount	(25,963,251)	(24,544,835)
	$ 33,518,169	$ 31,473,983

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

	2020	2019
31 - 60 days past due	$ 242,349	$ 217,506
61 - 90 days past due	129,084	43,606
Greater than 90 days past due	26,140	154,536
Total past due	397,573	415,648
Current	59,083,847	55,603,170
	$ 59,481,420	$ 56,018,818

Principal payments due on mortgage notes receivable are as follows:

Years Ending June 30,	
2021	$ 2,130,980
2022	2,330,836
2023	2,333,226
2024	2,343,030
2025	2,346,731
Thereafter (including non-paying second and third mortgages of $5,295,203)	47,996,617
Notes receivable at face value	59,481,420
Less unamortized discount	(25,963,251)
	$ 33,518,169

Note 10—NMTC intangible assets

Habitat incurred $44,136 in guarantor fees related to its New Markets Tax Credit ("NMTC") financing in August 2012, to be amortized over seven years, the period to which the guarantee applies. Habitat incurred $27,125 in guarantor fees, $13,333 in audit fees, $64,400 in asset management fees, and $26,250 in consulting fees related to its NMTC financing in December 2017, to be amortized over seven years, the period to which the assets apply. 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:

	2020	2019
QALICB guarantor fee	$ 41,096	$ 71,261
CDE audit fee	33,333	13,333
Asset management fee	117,954	64,400
Consulting fee	49,534	26,250
Total intangible assets	241,917	175,244
Accumulated NMTC amortization	(48,144)	(71,180)
NMTC intangible assets, net	$ 193,773	$ 104,064

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

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

In September 2019, the investment fund exercised a put option, resulting in CCML holding the debt, thereby releasing Habitat from any future obligation outstanding under the promissory note. Upon release from future obligations under the promissory note, Habitat recognized $299,867 of debt forgiveness income included in the consolidated statement of activities and changes in net assets. As of June 30, 2020, there was no outstanding amount due on this promissory note. (see Note 13).

Note 10—NMTC intangible assets (continued)

Upon forgiveness of debt, the value of CCML and Habitat's corresponding investment, was reduced to $-0-. The activity of the NMTC joint venture investment during the years ended June 30 is as follows:

	2020	2019
Beginning balance	$ 1,580,133	$ 1,555,320
Distributions received	(1,880,000)	(14,301)
Share of income	299,867	39,114
Ending balance	$ -	$ 1,580,133

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:

	2020	2019
Beginning balance	$ 1,201,374	$ 1,202,011
Capital contributed	-	-
Distributions received	(12,074)	(12,074)
Share of income	12,074	11,437
Ending balance	$ 1,201,374	$ 1,201,374

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.

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.

Note 10—NMTC intangible assets (continued)

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

	2020	2019
Beginning balance	$ -	$ -
Capital contributed	1,111,837	-
Distributions received	-	-
Share of income	-	-
Ending balance	$ 1,111,837	$ -

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:

	June 30, 2020		June 30, 2019	
	Harbor Habitat Leverage II, LLC	Harbor Habitat Leverage III, LLC	CCML Leverage II, LLC	Harbor Habitat Leverage II, LLC
Assets:				
Notes receivable	$ 7,244,463	$ 4,447,352	$ 15,735,842	$ 7,244,463
Other assets	-	-	1,740,831	-
Total assets	$ 7,244,463	$ 4,447,352	$ 17,476,673	$ 7,244,463

At June 30, 2020, both Harbor Habitat Leverage II, LLC and Harbor Habitat Leverage III, LLC had no liabilities and minimal activity. At June 30, 2019, both CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC had no liabilities and minimal activity.

Note 11—Notes payable

	2020	2019
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments totaling $95,863 (at June 30, 2020) with varying maturities through March 2050, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of $12,614,170. The notes have an undiscounted balance outstanding of $23,257,895 and $22,097,696 at June 30, 2020 and 2019, 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 $1,174,049 and $743,283 has been recognized in 2020 and 2019, 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, 2020 and 2019 amounted to $10,643,725 and $10,096,105, respectively.	$ 12,614,170	$ 12,001,591

Note 11—Notes payable (continued)

	2020	2019
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $14,991, 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 $3,347,053 and $3,592,338 at June 30, 2020 and 2019, 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, 2020 and 2019 amounted to $1,332,114 and $1,423,494, respectively.	$ 2,014,939	$ 2,168,844
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from $75 to $1,861 through December 2025.	405,462	325,652
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 $1,074,357 and $1,295,652, at June 30, 2020 and 2019, respectively. The discount is being amortized to interest expense over the respective terms of the notes. The unamortized discount at June 30, 2020 and 2019 amounted to $223,329 and $259,303, respectively.	851,028	1,036,349
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $4,742, 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, 2020 and 2019 of $1,247,736 and $1,057,852, respectively. Contribution revenue of $110,382 and $237,805 was recognized in 2020 and 2019, 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, 2020 and 2019 amounted to $462,251 and $406,393, respectively.	785,485	651,459

Note 11—Notes payable (continued)

	2020	2019
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $2,961, maturing at various times through July 2047. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2020 and 2019 of $917,930 and $953,461, 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, 2020 and 2019 amounted to $400,743 and $416,266, respectively.	$ 517,187	$ 537,195
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, 2020 and 2019 of $501,768 and $522,847, 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, 2020 and 2019 amounted to $209,417 and $218,116, respectively.	292,351	304,731
Note payable to bank, unsecured at a variable interest rate of 4% below prime (0.0% at June 30, 2020), maturing in December 2020.	90,000	90,000
Note payable to bank, secured by certain real property with a net book value of $7,482,325 at June 30, 2020, at a variable interest rate of 4% below prime (0.0% at June 30, 2020), with a 20-year amortization maturing in October 2023.	3,447,595	3,752,714
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, 2020 and 2019 of $935,589 and $972,214, 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, 2020 and 2019 amounted to $393,018 and $408,354, respectively.	542,571	563,860

Note 11—Notes payable (continued)

	2020	2019
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $1,497, maturing at various times through June 2049. The notes have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2020 of $516,023. Contribution revenue of $234,245 was recognized in 2020 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, 2020 amounted to $228,907.	$ 287,116	$ -
In accordance with Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the ''CARES Act''), Habitat applied for and received a Paycheck Protection Program loan totaling $746,625 during April 2020 based on the federal government's payroll formula. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans including accrued interest to the extent Habitat incurs certain qualifying expenses and maintains a certain level of average full-time equivalent employees during the measurement period following closing of the loan. Any portion of the loan not forgiven has a term of two years with an interest rate of 1%.	746,625	-
	$ 22,594,529	$ 21,432,395

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

	2020	2019
Notes payable, secured by mortgages, net of unamortized discount	$ 17,904,847	$ 17,264,029
Note payable, secured by Harding Place property	3,447,595	3,752,714
Notes payable, unsecured	495,462	415,652
Paycheck Protection Program loan	746,625	-
	$ 22,594,529	$ 21,432,395

Future principal maturities of notes payable are as follows:

Years Ending June 30,	
2021	$ 2,130,114
2022	2,764,358
2023	2,010,025
2024	4,193,035
2025	1,561,481
Thereafter	23,865,276
Total principal maturities	36,524,289
Debt issuance costs	(36,256)
Amounts representing imputed interest	(13,893,504)
	$ 22,594,529

Note 12—Line of credit

Habitat has a $950,000 line of credit agreement with a bank bearing interest at the bank's index rate plus 1% (4.5% at June 30, 2020). The line of credit is secured by real estate. The line of credit has a maturity date of January 2021. At June 30, 2020 and 2019, no borrowings were outstanding under the line of credit agreement.

Note 13—NMTC joint venture note payable

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

The loan was secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt was associated with a put option feature under an option agreement between the joint venture's related parties that was expected to be exercised in 2020 that extinguished the liability from Habitat. The balance of the note payable at June 30, 2019 was $1,880,000, net of issuance costs of $15,555. Debt issuance costs of $27,151 were being amortized to interest expense over the 15-year term of the loan. In September 2019, the investment fund exercised a put option, resulting in CCML holding the debt, thereby releasing Habitat from any future obligation outstanding under the promissory note. Upon release from future obligations under the promissory note, Habitat recognized $299,867 of debt forgiveness income included in the statements of activities. As of June 30, 2020, there was no outstanding amount due on this promissory note.

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

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

The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the partnership's related parties that is expected to be exercised in 2025 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2020 and 2019 is $1,715,000, net of issuance costs of $46,499 and $49,156, 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.

Note 13—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 third 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, 2020 was $1,521,250 net of issuance costs of $82,640. 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 December 20, 2024.

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

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

Note 14—Net assets with donor restrictions

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

	2020	2019
Unamortized discount on notes payable	$ 13,893,504	$ 13,228,030
Donor restricted contributions	995,492	1,787,833
Unconditional promises to give, net	23,935	44,407
	$ 14,912,931	$ 15,060,270

Note 15—Concentrations

Habitat maintains its cash in bank accounts that at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2020 and 2019 totaled $547,551 and $158,927, respectively.

Note 16—Commitments and contingencies

In connection with the development of Park Preserve, Edison Park, and Hallmark subdivisions, Habitat has obtained letters of credit totaling $2,591,000 and $1,621,000 at June 30, 2020 and 2019, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2020 and 2019. The letters of credit expire through April 2021.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to $149,953 and $132,677 for the years ended June 30, 2020 and 2019, respectively. A summary of future minimum rental payments as of June 30, 2020 is as follows:

Years Ending June 30,	
2021	$ 54,137
2022	7,583
2023	1,794
2024	382
	$ 63,896

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

Note 17—In-kind contributions

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

	2020	2019
Building supplies and home appliances	$ 330,489	$ 175,408

Approximately 5,600 and 7,700 individuals contributed significant amounts of time to Habitat's activities during the years ended June 30, 2020 and 2019, respectively. The financial statements do not reflect the value of these services because they do not meet the recognition criteria prescribed by U.S. GAAP.

Note 18—Retirement plan

Habitat has a defined contribution retirement plan for its employees, which was established as a Simple IRA. As described in the plan document, substantially all full-time employees are eligible to participate in the plan. Discretionary contributions may be made at the option of the Board of Directors. Habitat recognized retirement plan expense of $72,949 and $69,442 for the years ended June 30, 2020 and 2019, respectively.

Note 19—Supplemental cash flow information

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

Supplemental Cash Flow Information:

	2020	2019
Interest paid	$ 25,315	$ 52,561

Supplemental Schedule of Noncash Investing and Financing Activities:

	2020	2019
Issuance of non-interest bearing mortgage loans	$ 7,195,002	$ 6,027,202
Discount on non-interest bearing mortgage loans	(3,115,212)	(2,798,925)
Transfers to homeowners subject to non-interest bearing mortgage loans	$ 4,079,790	$ 3,228,277
Loans transferred to real estate held for sale	$ -	$ 91,914

Note 20—Related parties

At June 30, 2020 and 2019, Habitat owed notes payable, net of discounts, totaling approximately $7,084,645 and $6,663,017, 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, 2020 and 2019, Habitat contributed $111,998 and $88,005, 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, 2020 and 2019, Habitat was granted $463,800 and $576,704, respectively. At June 30, 2020 and 2019, the balances of the loans totaled $405,462 and $325,652, respectively.

Note 21—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.