

National Affordable Housing Trust, Inc. and Affiliates

**Consolidated Financial Statements
with Report of Independent Auditors**

**For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to
September 30, 2020**

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NOVOGRADAC
& COMPANY LLP®

Report of Independent Auditors

To the Board of Directors of
National Affordable Housing Trust, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Affordable Housing Trust, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2021 and September 30, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Affordable Housing Trust, Inc. and Affiliates as of June 30, 2021 and September 30, 2020 and the changes in their net assets and their cash flows for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

Dover, Ohio
October 7, 2021

NATIONAL AFFORDABLE HOUSING TRUST, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and September 30, 2020

	June 30, 2021	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,286,000	\$ 7,238,000
Accounts receivable, less allowance	1,598,000	1,181,000
Asset management fees receivable, less allowance	874,000	592,000
Current portion of notes receivable	138,000	251,000
Prepaid expenses and other current assets	74,000	119,000
Investment in real estate partnership, at fair value	491,000	-
Total current assets	13,461,000	9,381,000
Property and equipment, at cost:		
Furniture and equipment	994,000	974,000
Accumulated depreciation	(940,000)	(929,000)
Total property and equipment	54,000	45,000
Other assets:		
Notes receivable, less allowance	216,000	289,000
Investments in Funds	506,000	53,000
Total other assets	722,000	342,000
Total assets	\$ 14,237,000	\$ 9,768,000
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,878,000	\$ 1,563,000
Paycheck Protect Program loan	-	576,000
Note payable	251,000	-
Contributions payable	700,000	-
Total current liabilities	3,829,000	2,139,000
Long-term liabilities:		
Deferred revenue	1,026,000	1,061,000
Total long-term liabilities	1,026,000	1,061,000
Net assets:		
Without donor restrictions	9,382,000	6,568,000
Total liabilities and net assets	\$ 14,237,000	\$ 9,768,000

See accompanying notes to consolidated financial statements

NATIONAL AFFORDABLE HOUSING TRUST, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020

	<u>For the period October 1, 2020 to June 30, 2021</u>	<u>For the period January 1, 2020 to September 30, 2020</u>
REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS		
Asset management	\$ 1,845,000	\$ 963,000
Syndication	4,896,000	2,099,000
Consulting	613,000	656,000
Other	141,000	41,000
Interest income	34,000	49,000
Total revenue and support without donor restrictions	<u>7,529,000</u>	<u>3,808,000</u>
EXPENSES		
Program services	2,733,000	3,212,000
Administrative and support	1,808,000	1,145,000
Total expenses	<u>4,541,000</u>	<u>4,357,000</u>
INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES)	2,988,000	(549,000)
OTHER INCOME (EXPENSES)		
LHI contribution	650,000	2,350,000
SAHF contribution	-	(250,000)
Contribution	(700,000)	-
Cancellation of debt	576,000	-
Impairment loss on investment	(50,000)	-
Original member contributions	-	(1,500,000)
SAHF grant	(650,000)	(850,000)
Total other income (expenses)	<u>(174,000)</u>	<u>(250,000)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,814,000	(799,000)
NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF PERIOD	<u>6,568,000</u>	<u>7,367,000</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF PERIOD	<u>\$ 9,382,000</u>	<u>\$ 6,568,000</u>

See accompanying notes to consolidated financial statements

NATIONAL AFFORDABLE HOUSING TRUST, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020

For the period October 1, 2020 to June 30, 2021

EXPENDITURES	Program Services	Administrative and Support	Total
Salaries, benefits and taxes	\$ 2,521,000	\$ 1,425,000	\$ 3,946,000
Occupancy costs (excluding rent)	68,000	236,000	304,000
Rent	73,000	11,000	84,000
Retreats and meetings	-	4,000	4,000
Travel, training, and conferences	11,000	-	11,000
Outsourced staffing	-	46,000	46,000
Consultant services	28,000	-	28,000
Depreciation	32,000	-	32,000
Board meetings	-	1,000	1,000
SAHF core operating	-	9,000	9,000
D&O insurance	-	43,000	43,000
Audit and legal	-	33,000	33,000
	<u>\$ 2,733,000</u>	<u>\$ 1,808,000</u>	<u>\$ 4,541,000</u>

For the period January 1, 2020 to September 30, 2020

EXPENDITURES	Program Services	Administrative and Support	Total
Salaries, benefits and taxes	\$ 2,791,000	\$ 812,000	\$ 3,603,000
Occupancy costs (excluding rent)	9,000	134,000	143,000
Rent	73,000	8,000	81,000
Retreats and meetings	17,000	13,000	30,000
Travel, training, and conferences	16,000	-	16,000
Outsourced staffing	2,000	45,000	47,000
Consultant services	15,000	3,000	18,000
Depreciation	39,000	-	39,000
Board meetings	-	16,000	16,000
SAHF core operating	250,000	-	250,000
D&O insurance	-	46,000	46,000
Audit and legal	-	68,000	68,000
	<u>\$ 3,212,000</u>	<u>\$ 1,145,000</u>	<u>\$ 4,357,000</u>

See accompanying notes to consolidated financial statements

NATIONAL AFFORDABLE HOUSING TRUST, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020

	For the period October 1, 2020 to June 30, 2021	For the period January 1, 2020 to September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets without donor restrictions	\$ 2,814,000	\$ (799,000)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by (used in) operating activities		
Depreciation	32,000	39,000
Cancellation of debt	(576,000)	-
Impairment loss on investment	50,000	-
Changes in operating assets and liabilities:		
Accounts receivable, less allowance	(417,000)	236,000
Asset management fees receivable, less allowance	(282,000)	186,000
Prepaid expenses and other current assets	45,000	(51,000)
Accounts payable and accrued expenses	1,315,000	388,000
Contributions payable	700,000	-
Deferred revenue	(35,000)	(75,000)
Net cash provided by (used in) operating activities	3,646,000	(76,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in real estate partnerships, at fair value	(491,000)	1,094,000
Investments in partnerships	(503,000)	-
Net change in property and equipment, net	(41,000)	(12,000)
Decrease in notes receivable	186,000	-
Net cash (used in) provided by investing activities	(849,000)	1,082,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Paycheck Protect Program loan	-	576,000
(Repayments of) proceeds from lines of credit	-	(1,094,000)
Proceeds from note payable	251,000	-
Net cash provided by (used in) financing activities	251,000	(518,000)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	3,048,000	488,000
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	7,238,000	6,750,000
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 10,286,000	\$ 7,238,000
CASH AND CASH EQUIVALENTS	\$ 10,286,000	\$ 7,238,000
RESTRICTED CASH	-	-
TOTAL CASH, CASH EQUIVALENTS AND RESTRICTED CASH	\$ 10,286,000	\$ 7,238,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 40,000	\$ 30,000

See accompanying notes to consolidated financial statements

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

1. Organization and purpose

National Affordable Housing Trust, Inc. (“NAHT”) is a 501(c)(3) nonprofit Maryland corporation dedicated to the creation and preservation of affordable housing. NAHT was founded in 1986 by Retirement Housing Foundation and National Church Residences with additional financial support from the Ford Foundation, the ARCO Foundation, and the National Council of State Housing Agencies. NAHT was formed following the creation of the Low-Income Housing Tax Credit Program (LIHTC), as a member-based organization with the sole purpose of providing capital and development expertise necessary to support the affordable housing mission.

In 2013, NAHT was restructured with Stewards of Affordable Housing for the Future (“SAHF”) becoming its sole member. SAHF is a 501(c)(3) network of thirteen social enterprise nonprofits committed to affordable housing. SAHF works with its members to develop policy solutions surrounding affordable housing issues. NAHT was governed by an 18-member board of trustees including representatives from SAHF as well as independent directors active in the LIHTC industry.

On September 28, 2020, NAHT, SAHF and LIIF Housing Investments LLC (“LHI”), an affiliate of Low Income Investment Fund (“LIIF”), entered into a Restructuring and Contribution Agreement (“Restructuring Agreement”) to collaborate to expand the reach of NAHT’s charitable activities. Effective September 30, 2020, LHI acquired a controlling membership interest in NAHT, renamed the Class A Membership Interests, and SAHF decreased their membership interest in NAHT to a non-controlling interest, renamed the Class B Membership Interests, per the Restructuring Agreement. NAHT is governed by a 7-member board of trustees including three representatives from SAHF and four representatives from LHI.

NAHT primarily provides acquisition services, development consulting services and asset management services in its efforts to create and preserve affordable housing.

NAHT created the following entities, to serve as general partners in limited partnerships or members/managers in limited liability companies (the “Funds”) which invest in affordable housing properties (“Operating Partnerships”). These Funds provide capital for the Operating Partnerships. In addition, they provide a vehicle for losses and low-income housing tax credits to flow to the investor limited partners. The underlying investments in affordable housing properties are expected to generate losses:

<u>Entity</u>	<u>Date</u>	<u>Funds/Limited Partnerships in Operating Partnerships</u>	<u>Number of “Operating Partnerships”</u>
NHT III, Inc.	1995		0
NHT IV, Inc.	1997	NHT IV Tax Credit Fund L.P.	0
NHT V, Inc.	1999	NHT V Tax Credit Fund L.P.	2
NHT VI, Inc.	1999	NHT VI Tax Credit Fund, L.P.	0
NHT VIII, Inc.	2002	NHT VIII Tax Credit Fund, L.P.	2
NHT X, Inc.	2002	Fifth Third NHT X Tax Credit Fund LLC	2
NHT XI, Inc.	2002	Huntington NHT XI Tax Credit Fund LLC	8
NHT XII, Inc.	2003	NHT XII Nationwide Tax Credit Fund, LLC	0
NHT XIV, Inc.	2002	NHT XIV Wells Fargo Tax Credit Fund, L.P.	7
NHT XV, Inc.	2002	NHT XV Washington Mutual Tax Credit Fund, L.P.	7
NHT XVI, Inc.	2003	NHT XVI Tax Credit Fund, L.P.	4

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

1. Organization and purpose (continued)

<u>Entity</u>	<u>Date</u>	<u>Funds/Limited Partnerships in Operating Partnerships</u>	<u>Number of "Operating Partnerships"</u>
NHT XVII, Inc.	2004	NHT XVII Tax Credit Fund, L.P.	0
NHT XX, LLC	2004	NHT XX Tax Credit Fund, L.P.	3
NHT XXI, Inc.	2004	NHT XXI Tax Credit Fund, L.P.	5
NHT XXI-A, LLC	2004	NHT XXI-A TCF, LLC	1
NHT XXII, LLC	2005	NHT XXII Tax Credit Fund LP	3
NHT XXIV, LLC	2006	NHT XXIV Tax Credit Fund, LLC	3
NHT XXV, LLC	2007	NHT XXV Tax Credit Fund, L.P.	1
NHT 26, Inc.	2007	NHT 26 Tax Credit Fund, LLC	1
NHT 27, Inc.	2007	NHT 27 Tax Credit Fund, LP	8
NHT 28, Inc.	2008	NHT 28 Tax Credit Fund, LP	3
NHT 29, Inc.	2009	NHT 29 Tax Credit Fund LLC	4
Cornerstone/NAHT Management, LLC	2009	Cornerstone/NAHT EPF 2010-1 LLC	8
Cornerstone/NAHT Administrative Member	2009		0
Cornerstone/NAHT 2011 Administrative Member, LLC	2011		0
Cornerstone/NAHT 2011 Management, LLC	2011	Cornerstone/NAHT EPF 2011-1 LLC	11
Cornerstone/NAHT 2013 Mgmt, LLC	2013	Cornerstone/NAHT Enhanced Preservation Fund 2013-1, LP	18
NHT 30, Inc.	2013	NHT 30 Tax Credit Fund, LP	2
NHT 31, Inc.	2013	NHT RBS Citizens 31 Tax Credit Fund, LP	6
NHT 32, Inc.	2014	NHT 32 Tax Credit Fund, LP	3
Cornerstone/NAHT 2014 Mgmt, LLC	2014	Cornerstone/NAHT Enhanced Preservation Fund 2014-1, LP	18
NHT-SFF 2015, Inc.	2015	NAHT Strong Families Fund 2015, LP	5
NHT 33, Inc.	2016	NAHT 33 TCF LP	3
NHT 34, Inc.	2017	NAHT 34 TCF LP	2
NHT 35, Inc.	2018	NAHT 35 TCF LP	3
NAHT/SAHF Affordable Housing Communities 2019-2, Inc.	2019	SAHF Affordable Housing Communities Fund 2019 (MS) LP	10
NAHT/SAHF Affordable Housing Communities 2019-1, Inc.	2019	SAHF Affordable Housing Communities Fund 2019 (UHC) LP	10
NHT 36, Inc.	2020	NAHT 36 TCF LP	1
NHT 37, Inc.	2020	NAHT 37 TCF LP	1

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

1. Organization and purpose (continued)

NAHT created the following entities, whose purpose is to acquire, invest, own, rehabilitate or construct specific affordable housing properties:

<u>Entity</u>	<u>Date</u>	<u>Affiliations</u>
NHT I, Inc.	1994	Owner of NHT Master Investor, LLC which owns NHT Equity, LLC, and NHT NM1, LLC
NHT Equity LLC	2008	Temporary investor in various warehoused properties Managing Member in NHT Avondale, LLC
NHT First, Inc.	2004	
Highland Affordable Housing, Inc.	1990	No current investments
Xavier Affordable Housing, Inc.	1992	No current investments
Waggoner Woods, Inc.	2003	No current investments
NAHT Alabama, Inc.	2005	Co-GP in Mill Run, Park Place, Deer Ridge and Crawford Park, and The Arbors at Ellington, LTD
NAHT Massachusetts, Inc.	2004	No current investments
NHT Agent, Inc.	2012	Statutory agent entity for Ohio

2. Summary of significant accounting policies and nature of operations

Principles of consolidation

The consolidated financial statements include NAHT and its majority-owned affiliates, collectively the “Organization”. All material intercompany transactions have been eliminated.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Organization’s net assets are not subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as net assets without donor restrictions.

Property and equipment

The Organization records property and equipment at cost. The cost of routine maintenance and repairs is charged to operations as incurred. Major renewals, betterments, and additions are capitalized. When capital assets are retired or disposed of, the cost of the asset and accumulated depreciation are eliminated from the accounts, and the resulting gain or loss from such disposition is recorded. Depreciation is calculated using the straight-line and accelerated methods over the estimated useful lives of the assets as follows:

Furniture and equipment	3-10 years
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**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

2. Summary of significant accounting policies and nature of operations (continued)

Cash and cash equivalents

The Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash or cash equivalents. The carrying amounts reported in the consolidated statements of financial position approximate fair value because of the short-term maturities of those instruments.

Accounts receivable/asset management fees receivable

Accounts receivable and asset management fees receivable are due from the Operating Partnerships. These fees are generally described in the respective partnership agreements and are customarily paid out of cash flow as defined in the partnership agreement for each respective Operating Partnership. To the extent that the Operating Partnerships do not generate significant cash flow, an allowance is established against these receivables.

As of June 30, 2021 and September 30, 2020, a total allowance of \$1,181,000 and \$990,000, respectively, has been established.

Notes receivable

Notes receivable are carried at unpaid principal balances, less an allowance for loan losses. Management periodically evaluates the adequacy of the allowance. Notes are allowed for if full principal or interest payments are not anticipated in accordance with the contractual terms. Interest on notes is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

Income taxes

The Internal Revenue Service has ruled that NAHT, NHT I, Inc., NHT III, Inc., NHT IV, Inc., NHT V, Inc., NHT VI, Inc., NHT VII, Inc., NHT VIII, Inc., NHT IX, Inc., NHT X, Inc., NHT XI, Inc., NHT XIV, Inc., NHT XV, Inc., NHT XII, Inc., NHT XVI, Inc., NHT XVII, Inc., NHT XXI, Inc., NHT 26, Inc., NHT 27, Inc., NHT 28, Inc., NHT 29, Inc., NHT 30, Inc., NHT 31, Inc., NHT 32, Inc., NHT 33, Inc., NHT 34, Inc., NHT 35, Inc., NHT 36, Inc., NHT 37, Inc., NHT-SFF 2015, Inc., NAHT Massachusetts, Inc., and NHT Agent, Inc. are tax-exempt organizations as defined under Section 501(c)(3) of the Internal Revenue Code.

NHT XX, LLC, NHT XXII, LLC, NHT XXIV, LLC, NHT XXV, LLC, Cornerstone/NAHT Management, LLC, Cornerstone/NAHT Administrative Member, Cornerstone/NAHT 2014 Management, LLC, SAHF Affordable Housing Communities Fund 2019 (MS) LP, and SAHF Affordable Housing Communities Fund 2019 (UHC) LP are for-profit partnerships and have not generated significant taxable income since inception.

Waggoner Woods, Inc., NHT First, Inc. and NAHT Alabama, Inc. are for-profit corporations and have not generated significant taxable income since inception. As such, no provision for federal income taxes has been recorded in the consolidated financial statements.

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires NAHT to report information regarding its exposure to various tax positions taken by NAHT. Management has determined whether any tax positions have met the recognition threshold and has measured NAHT's exposure to those tax positions. Management believes that NAHT has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes (continued)

examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to NAHT are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

Revenue recognition

Revenue is generated from syndication fees, management fees, consulting services, interest and other sources.

The Organization has adopted ASU 2014-09, Revenues from Contracts with Customers, and the related amendments. In accordance with the guidance, the Organization recognizes revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to receive in exchange for those goods or services. These revenues include unbilled revenues, which are estimated using the performance obligations completed but not billed until after the end of the period.

Revenue from performance obligations satisfied at a point in time consists of syndication fees earned when the Funds invest in the Operating Partnerships and are recognized at the time the investment is made. Interest and other income is recognized when earned. Revenue from consulting services is recognized as the service is provided or the cost is incurred.

Management fees are earned annually and are recognized when earned.

The following table disaggregates the Organization's revenue based on the timing of the satisfaction of performance obligations for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020:

	For the period October 1, 2020 to June 30, 2021	For the period January 1, 2020 to September 30, 2020
Performance obligations satisfied at a point in time	\$ 6,860,000	\$ 5,195,000
Performance obligations satisfied over time	1,845,000	963,000
Total revenue and support without donor restrictions	<u>\$ 8,705,000</u>	<u>\$ 6,158,000</u>

Deferred revenue

Asset management fees that are prepaid are deferred and recognized pro rata over the periods to which the asset management fees relate. Deferred revenue was as follows at:

September 30, 2020	\$ 1,061,000
June 30, 2021	\$ 1,026,000

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

2. Summary of significant accounting policies and nature of operations (continued)

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the fair value is less than the carrying amount of the asset, the Organization recognizes an impairment loss for the difference. There was no impairment loss recognized during the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020.

Impairment of investments

The Organization regularly assesses the carrying value of its investments in Funds. If the carrying value exceeds the estimated value derived by management, the Organization reduces its investments in Funds and includes such reduction in impairment loss on investment. For the period October 1, 2020 to June 30, 2021 and the period January 1, 2020 to September 30, 2020, impairment losses of \$50,000 and \$0, respectively, were recognized.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

- Level 1:* Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2:* Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3:* Unobservable inputs that reflect the Organization's own assumptions.

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and September 30, 2020

2. Summary of significant accounting policies and nature of operations (continued)

Fair value measurements (continued)

The following tables present assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2021 and September 30, 2020:

	June 30, 2021			Fair Value Measurements
	Level 1	Level 2	Level 3	
Investments in real estate partnerships	\$ -	\$ -	\$ 491,000	\$ 491,000
	September 30, 2020			
	Level 1	Level 2	Level 3	Fair Value Measurements
Investments in real estate partnerships	\$ -	\$ -	\$ -	\$ -

Management has elected the fair value option for certain investments in real estate partnerships. NAHT expects to recover the full amount of its investments in real estate partnerships as of June 30, 2021 in 2021 when its equity position is sold to a fund.

Methods used for allocation of expenses among program and supporting services

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting services of the Organization. The primary expenses include salaries and benefits, depreciation, occupancy costs, consultant and meetings/travel. Salaries and benefits allocation is based on the majority of staff's time allocated to closing and/or reporting on Operating Partnerships and Funds. Approximately 30% of the accounting department's time is allocated to Management and General for corporate work with the other 70% allocated to Program Services. Depreciation is allocated based on staff's time allocated to Program Services. Occupancy costs are allocated based on a time and cost study of where efforts are made.

3. Paycheck Protection Program loan

On April 13, 2020, NAHT received a loan of \$576,000 from Civista Bank under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The terms of the funding agreement indicate that NAHT must utilize the proceeds to fund/offset qualifying expenses over a twenty-four-week period. The loan may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The terms of the agreement specify that NAHT must repay the principal of the loan plus interest, which accrues at 1% per annum, commencing on November 13, 2020 in monthly principal and interest payments. The maturity date of the loan was April 13, 2022. As of June 30, 2021, the full balance of the loan has been forgiven. As of June 30, 2021 and September 30, 2020, the balance of the note was \$0 and \$576,000, respectively.

**NATIONAL AFFORDABLE HOUSING TRUST, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. Lines of credit

NAHT had available a revolving line of credit with Fifth Third Bank of up to \$3,000,000. The line of credit was secured by all assets and property of NAHT. The line of credit accrued interest at LIBOR plus 3% and was expected to mature on October 5, 2020. As part of the LIIF transaction, the line of credit was terminated effective September 29, 2020.

NAHT has available a revolving line of credit with Fifth Third Bank of up to \$6,000,000. The line of credit is secured by a pledge of the operating entity interest with respect to which such loan is made. The line of credit accrues interest at LIBOR plus 2.5%, matures on October 5, 2021. Upon the termination of the \$3,000,000 line of credit, this line of credit was increased to \$10,000,000 effective October 5, 2020. As of June 30, 2021, NAHT was in compliance with all debt covenants. At June 30, 2021 and September 30, 2020, NAHT had no balance outstanding on the line of credit and could borrow up to \$10,000,000 and \$6,000,000, respectively.

NAHT has available a revolving line of credit with Morgan Stanley Bank, N.A. of up to \$20,000,000. The line of credit is secured by the property covered by the security agreement and any other property, real or personal, tangible or intangible, now existing or hereafter acquired, that may at any time be or become subject to a security interest or lien in favor of the lender to secure the obligations.

The line of credit accrues interest at 2.5 % plus LIBOR and is guaranteed by NAHT. The revolving line of credit matures on September 30, 2022. As of June 30, 2021, NAHT was in compliance with all debt covenants. At June 30, 2021 and September 30, 2020, NAHT had no balance outstanding and could borrow up to \$20,000,000.

Debt issuance costs are being amortized to interest expense over the term of the loan. For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, the effective interest rate was 2.50% and 3.33%, respectively. For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, debt issuance costs amortized to interest expense were \$1,000 and \$0, respectively.

5. Note payable

On June 1, 2021, the Organization received an equity bridge loan of \$251,000 from Preservation of Affordable Housing. The loan is noninterest bearing. The terms of the agreement specify that the Organization must repay the principal of the loan on December 31, 2022 which is the maturity date of the loan. As of June 30, 2021 and September 30, 2020, the balance of the note payable was \$251,000 and \$0, respectively.

6. Related party transactions

Syndication fees

NAHT earns syndication fees upon the investment of the Funds in Operating Partnerships.

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6. Related party transactions (continued)

Asset management and administrative fees

NAHT earns annual asset management and administrative fees from the Funds. An allowance for doubtful accounts has been established against the asset management fees receivable in the amount of \$984,000 and \$1,181,000 at June 30, 2021 and September 30, 2020, respectively. Asset management fees earned for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020 were \$1,845,000 and \$963,000, respectively.

Office lease

NAHT leases office space from a former member under a month-to-month operating lease agreement. Rent expense for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020 was \$84,000 and \$81,000, respectively.

Notes receivable

During 2002, NAHT provided a \$327,000 note to Harvard Elderly Limited Partnership, an affiliate of the general partners of the Funds. The note bears no interest and is due December 31, 2032. At June 30, 2021 and September 30, 2020, the entire balance has been included in allowance for doubtful loan collections.

NAHT provided a \$300,000 note to Waggoner Woods, an affiliate of the general partners of the Funds. This note bears interest at 7%, compounded annually. Principal and interest are due August 31, 2033. The balance of the note receivable at June 30, 2021 and September 30, 2020, including accrued interest, was \$262,000 and \$326,000, respectively. As of June 30, 2021 and September 30, 2020, management has deemed \$175,000 to be uncollectable for both periods.

NAHT provided a \$117,000 loan to LIIF Housing Preservation Fund, LLC, an affiliate of LIIF, on May 7, 2018 which was due January 2021. In January 2021, the \$117,000 was repaid to NAHT. On March 20, 2019, NAHT provided an additional loan in the amount of \$272,000 of which \$138,000 is due January 2022 and \$134,000 was due October 2020. In October 2020, the \$134,000 was repaid to NAHT. The loan is non-interest bearing. The balance of the note receivable at June 30, 2021 and September 30, 2020 was \$267,000 and \$389,000, respectively.

A summary of NAHT's notes receivable and accrued interest outstanding at June 30, 2021 and September 30, 2020 is as follows:

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Harvard Elderly Limited Partnership	\$ 327,000	\$ 327,000
Waggoner Woods	262,000	326,000
LIIF Housing Preservation Fund, LLC	267,000	389,000
	<u>856,000</u>	<u>1,042,000</u>
Allowance for doubtful loan collections	<u>(502,000)</u>	<u>(502,000)</u>
	354,000	540,000
Current Portion	138,000	251,000
	<u>\$ 216,000</u>	<u>\$ 289,000</u>

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6. Related party transactions (continued)

SAHF core operating contributions

NAHT makes payments to SAHF for support of NAHT's operations. For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, NAHT paid core operating contributions to SAHF in the amount of \$0 and \$250,000, respectively.

LHI contribution, SAHF contribution and grant, and original member contributions

Pursuant to the Restructuring Agreement, LHI paid NAHT \$2,350,000 when they acquired the Class A Membership Interests of NAHT during the period January 1, 2020 to September 30, 2020. NAHT used the contributions to pay a grant to SAHF in the amount of \$850,000 and pay contributions to its original members in the amount of \$1,500,000 during the period January 1, 2020 to September 30, 2020. In addition, NAHT paid SAHF an additional \$250,000 of its net assets before the transaction pursuant to the Restructuring Agreement during the period January 1, 2020 to September 30, 2020.

For the period October 1, 2020 to June 30, 2021, NAHT earned \$650,000 as certain metrics outlined in the Restructuring Agreement were met. For the period October 1, 2020 to June 30, 2021, NAHT used the contributions to pay a grant to SAHF in the amount of \$650,000. In addition, NAHT accrued charitable contributions to be paid to SAHF and LHI of \$280,000 and \$420,000, respectively, of its net assets for the period October 1, 2020 to June 30, 2021.

NAHT is eligible to receive additional contributions of \$1,110,000 from LHI if certain metrics outlined in the Restructuring Agreement are met. If the contributions are received, NAHT will pay a grant to SAHF in an equal amount of the contributions.

SAHF accounting revenue

NAHT provides accounting services for SAHF. For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, NAHT earned accounting revenue from SAHF in the amount of \$47,000 and \$41,000, respectively.

SAHF policy support

NAHT receives policy support from SAHF. For the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, NAHT incurred policy support expense in the amount of \$9,000 and \$0, respectively.

7. Retirement plans

Effective April 1, 2017, NAHT entered into 403(B) and 401(A) retirement plans for the employees of NAHT who meet certain requirements as to age and length of service. NAHT's contributions to the plans totaled \$191,000 and \$184,000 for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020, respectively.

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8. Guarantees

NAHT is party to a guarantee related to a partnership investment. As of June 30, 2021 and September 30, 2020, the maximum potential amount payable is \$100,000, conditional upon the partnership investment incurring additional expenses and repairs in excess of \$350,000. The guarantee expires at the end of the underlying property's tax credit compliance period. As of June 30, 2021 and September 30, 2020, no payments have been required under this guarantee. Additionally, the management of NAHT is presently not aware of any potential claims under this guarantee as of June 30, 2021 and September 30, 2020. Amounts funded under this guarantee may be recovered from future surplus cash generated by the partnership investment.

9. Financial instruments

The Organization maintains cash balances at several banks. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation (up to \$250,000 at June 30, 2021 and September 30, 2020). At June 30, 2021 and September 30, 2020, the Organization had cash balances in excess of insured limits.

The Organization has not experienced any losses in such accounts and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to cash balances.

10. Liquidity and availability of financial assets

As of June 30, 2021 and September 30, 2020, NAHT has \$12,758,000 and \$9,011,000, respectively, of financial assets available within one year of the statement of financial position date consisting of: cash \$10,286,000 and \$7,238,000, respectively, Syndication and Development Advisory Services (DAS) fees receivable of \$1,598,000 and \$1,181,000, respectively, and asset management and fees receivable of \$874,000 and \$592,000, respectively. Both account receivable balances are net of allowances. No financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. However, NAHT must maintain at least \$3,000,000 in cash for both years to satisfy the warehouse loan covenant. The syndication and DAS fees are subject to benchmarks, but those benchmarks are expected to be satisfied within one year. Asset management fees are due annually and are generally received in April – June. Based on NAHT's June 30, 2021 and 2020 budgets, the \$9,758,000 and \$6,011,000, respectively, of net financial assets available provides 522 and 363, respectively, days of operations.

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10. Liquidity and availability of financial assets (continued)

The following reflects NAHT's financial assets as of June 30, 2021 and September 30, 2020:

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Cash and cash equivalents	\$ 10,286,000	\$ 7,238,000
Accounts receivable (syndication & DAS fees)	1,598,000	1,181,000
Accounts receivable (AM fees) - net of allowance	874,000	592,000
Total financial assets available within one year	<u>12,758,000</u>	<u>9,011,000</u>
Less: bank covenant	<u>(3,000,000)</u>	<u>(3,000,000)</u>
Net financial assets available for general expenditures	<u>\$ 9,758,000</u>	<u>\$ 6,011,000</u>

As part of its liquidity management, NAHT invests cash in excess of monthly requirements in various short-term investments including certificates of deposits and short-term treasury instruments.

11. Investments in Funds

The Organization accounts for its investments in Funds under the alternative to the fair value method. As such, the initial investment is recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Under the terms of the Organization's investment in the Funds, the Organization is required to make capital contributions to the Funds. These contributions are payable in installments over several years. As of June 30, 2021 and September 30, 2020, contributions of \$556,000 and \$53,000 have been paid to the Funds. As of June 30, 2021 and September 30, 2020, total investments in Funds are \$506,000 and \$53,000.

The combined balance sheets of the Funds as of June 30, 2021 and September 30, 2020, and the combined income statements for the period October 1, 2020 to June 30, 2021 and for the period January 1, 2020 to September 30, 2020 are as follows:

Combined Balance Sheets

	<u>June 30, 2021</u>	<u>September 30, 2020</u>
Cash and cash equivalents	\$ 11,241,000	\$ 11,508,000
Investments in Operating Partnerships	551,536,000	509,556,000
Other assets	<u>165,203,000</u>	<u>137,783,000</u>
Total assets	<u>\$ 727,980,000</u>	<u>\$ 658,847,000</u>
Liabilities		
Other liabilities	<u>\$ 123,769,000</u>	<u>\$ 96,583,000</u>
Total liabilities	123,769,000	96,583,000
Equity	<u>604,211,000</u>	<u>562,264,000</u>
Total liabilities and equity	<u>\$ 727,980,000</u>	<u>\$ 658,847,000</u>

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11. Investments in Funds (continued)

Combined Income Statements

	For the period October 1, 2020 to June 30, 2021	For the period January 1, 2020 to September 30, 2020
Total income	\$ 4,840,000	\$ 7,563,000
Total expenses	(21,640,000)	(60,801,000)
Net loss	<u>\$ (16,800,000)</u>	<u>\$ (53,238,000)</u>

12. Contingency

The severity of the impact of COVID-19 on NAHT's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on NAHT's borrowers, note receivable payees, Funds, and customers all of which are uncertain and cannot be predicted. NAHT's future results could be adversely impacted by delays in loan payment and revenue collections. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

13. Subsequent events

Subsequent events have been evaluated through October 7, 2021, which is the date the financial statements were available to be issued. There are no subsequent events requiring disclosure.