

**NASHVILLE AREA HABITAT
FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

June 30, 2007 and 2006

NASHVILLE AREA HABITAT FOR HUMANITY, INC.

TABLE OF CONTENTS

Independent Auditor’s Report.....2

Financial Statements:

 Statements of Financial Position.....3

 Statements of Activities4 – 5

 Statements of Cash Flows6

 Statements of Functional Expenses.....7 – 8

Notes to Financial Statements.....9 – 17



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nashville Area Habitat for Humanity, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Nashville Area Habitat for Humanity, Inc. as of June 30, 2007 and 2006, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2005 summarized comparative information has been derived from the Organization's 2005 financial statements and in our report dated August 4, 2005 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Area Habitat for Humanity, Inc. as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

September 13, 2007

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Cash, including escrow accounts of \$199,369 and \$190,611, respectively	\$ 623,647	\$ 1,029,798
Grants receivable	251,000	20,908
Sponsor and other receivables	612,391	696,800
Contributions receivable, net	225,974	142,259
Investments	-	10,000
Real estate held for sale	59,185	-
Construction-in-progress	659,886	713,379
Property and equipment, net	320,920	213,031
Land held for development	2,077,325	2,273,982
Non-interest bearing mortgage loans, net of discounts of \$8,036,988 and \$6,340,066, respectively	9,420,324	7,738,369
Other	655,583	272,792
Total assets	<u>\$ 14,906,235</u>	<u>\$ 13,111,318</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 584,952	\$ 293,015
Escrow accounts	199,369	190,611
Notes payable	4,508,631	4,644,659
Deferred revenue	809,825	1,144,310
Unearned revenue on second mortgage loans	2,951,274	2,442,876
Total liabilities	<u>9,054,051</u>	<u>8,715,471</u>
Net assets:		
Unrestricted	3,333,105	3,072,023
Temporarily restricted	2,519,079	1,323,824
Total net assets	<u>5,852,184</u>	<u>4,395,847</u>
Total liabilities and net assets	<u>\$ 14,906,235</u>	<u>\$ 13,111,318</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2007
(with comparative totals as of June 30, 2006)

	2007			2006 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$3,506,583	\$ -	\$3,506,583	\$2,159,166
Cash contributions	2,762,653	843,084	3,605,737	1,615,124
Grant income	798,664	474,872	1,273,536	849,699
HomeStore sales	989,820	-	989,820	821,413
THDA interest contribution	-	935,339	935,339	552,107
Mortgage loan discount amortization	389,272	-	389,272	368,714
In-kind contributions	262,257	-	262,257	288,582
Other income	173,713	-	173,713	77,029
Interest income	35,211	-	35,211	8,452
	8,918,173	2,253,295	11,171,468	6,740,286
Net assets released from restrictions	1,058,040	(1,058,040)	-	-
Total support and revenue	9,976,213	1,195,255	11,171,468	6,740,286
Expenses:				
Program services	8,296,816	-	8,296,816	5,496,311
Supporting services	1,418,315	-	1,418,315	1,048,418
Total expenses	9,715,131	-	9,715,131	6,544,729
Change in net assets	261,082	1,195,255	1,456,337	195,557
Net assets at beginning of year	3,072,023	1,323,824	4,395,847	4,200,290
Net assets at end of year	<u>\$3,333,105</u>	<u>\$2,519,079</u>	<u>\$5,852,184</u>	<u>\$4,395,847</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2006
(with comparative totals as of June 30, 2005)

	2006			2005 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$2,159,166	\$ -	\$2,159,166	\$1,967,500
Cash contributions	1,615,124	-	1,615,124	1,763,463
Grant income	749,699	100,000	849,699	784,035
HomeStore sales	821,413	-	821,413	513,561
THDA interest contribution	-	552,107	552,107	239,383
Mortgage loan discount amortization	368,714	-	368,714	365,255
In-kind contributions	288,582	-	288,582	138,701
Other income	77,029	-	77,029	17,540
Interest income	8,452	-	8,452	13,560
	<u>6,088,179</u>	<u>652,107</u>	<u>6,740,286</u>	<u>5,802,998</u>
Net assets released from restrictions	<u>124,009</u>	<u>(124,009)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>6,212,188</u>	<u>528,098</u>	<u>6,740,286</u>	<u>5,802,998</u>
Expenses:				
Program services	5,496,311	-	5,496,311	4,672,055
Supporting services	1,048,418	-	1,048,418	893,007
Total expenses	<u>6,544,729</u>	<u>-</u>	<u>6,544,729</u>	<u>5,565,062</u>
Change in net assets	(332,541)	528,098	195,557	237,936
Net assets at beginning of year	<u>3,404,564</u>	<u>795,726</u>	<u>4,200,290</u>	<u>3,962,354</u>
Net assets at end of year	<u>\$3,072,023</u>	<u>\$1,323,824</u>	<u>\$4,395,847</u>	<u>\$4,200,290</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,456,337	\$ 195,557
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash construction costs	31,625	-
Contribution of property and equipment	(31,550)	-
Transfers to homeowners	(1,772,605)	(1,203,168)
Depreciation	84,638	71,633
Gain on sale of mortgages	(86,109)	-
Mortgage loan discount amortization	(317,193)	(321,287)
Changes in operating assets and liabilities:		
Grants receivable	(230,092)	89,816
Sponsor and other receivables	694	(502,614)
Construction-in-progress	53,493	(203,819)
Land held for development	196,657	771,485
Other assets	(382,791)	(106,133)
Accounts payable and accrued expenses	291,937	(314,655)
Escrow accounts	8,758	21,603
Deferred revenue	(334,485)	638,711
	<u>(1,030,686)</u>	<u>(862,871)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Improvements to real estate held for sale	(11,847)	-
Purchases of property and equipment	(160,977)	(68,065)
Proceeds from sale of investments	10,000	102,965
Purchases of investments	-	(10,000)
Proceeds from sale of mortgages	244,451	-
Mortgage payments received	678,936	680,488
	<u>760,563</u>	<u>705,388</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Proceeds from issuance of notes payable	1,084,685	1,200,292
Repayments on notes payable	(1,220,713)	(379,514)
	<u>(136,028)</u>	<u>820,778</u>
Net cash (used in) provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(406,151)	663,295
Cash and cash equivalents at beginning of year	<u>1,029,798</u>	<u>366,503</u>
Cash and cash equivalents at end of year	<u>\$ 623,647</u>	<u>\$ 1,029,798</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2007

	Program Services					Supporting Services				
	Family Support and Educational Ministries		Discounts on Mortgage Obligations		HomeStore Operations	Fund Raising		Management and General	Total	
	Construction	\$	-	-	-	-	-	-	-	
Construction costs	\$ 4,093,299					\$ 4,093,299				\$ 4,093,299
Salaries and related expenses	635,936	356,901		533,368		1,526,205	420,282	113,970	534,252	2,060,457
Mortgage discounts	-	-	1,731,478	-		1,731,478	-	-	-	1,731,478
Printing and public relations	1,010	4,198		2,577		7,785	405,490	1,700	407,190	414,975
Lease expense	63,796	36,975		162,377		263,148	20,258	19,156	39,414	302,562
Other	71,491	29,002		15,536		116,029	61,832	42,864	104,696	220,725
Office expenses	52,160	41,888		61,135		155,183	32,243	18,948	51,191	206,374
Interest	64,403	-		-		64,403	-	25,673	25,673	90,076
Depreciation	-	-		-		-	-	84,638	84,638	84,638
Legal and professional	5,706	14,411		5,406		25,523	16,838	29,839	46,677	72,200
Tithe to Habitat for Humanity International, Inc.	67,481	-		-		67,481	-	-	-	67,481
Special events	-	-		-		-	50,115	-	50,115	50,115
Small tools and equipment	48,925	-		154		49,079	-	-	-	49,079
Repairs and maintenance	15,213	7,129		17,231		39,573	6,405	1,831	8,236	47,809
Donations	47,452	-		-		47,452	13	-	13	47,465
Auto	23,878	1,559		10,406		35,843	5,431	929	6,360	42,203
Taxes and insurance	24,851	311		8,451		33,613	1,139	6,765	7,904	41,517
Sponsor and volunteer appreciation	-	-		-		-	38,868	-	38,868	38,868
Advertising	1,890	898		12,214		15,002	9,442	697	10,139	25,141
Bank and credit card fees	1,234	-		18,643		19,877	-	2,949	2,949	22,826
Deconstruction	-	-		5,843		5,843	-	-	-	5,843
	<u>\$ 5,218,725</u>	<u>\$ 493,272</u>	<u>\$ 1,731,478</u>	<u>\$ 853,341</u>	<u>\$ 8,296,816</u>	<u>\$ 1,068,356</u>	<u>\$ 349,959</u>	<u>\$ 1,418,315</u>	<u>\$ 9,715,131</u>	<u>\$ 9,715,131</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	Program Services						Supporting Services		
	Family Support and Educational Ministries		Discounts on Mortgage Obligations		HomeStore Operations		Fund Raising	Management and General	Total
	Construction	Ministries	Mortgage Obligations	HomeStore Operations	Total	Total			
Construction costs	\$ 2,531,274	\$ -	\$ -	\$ -	\$ 2,531,274	\$ -	\$ -	\$ -	\$ 2,531,274
Salaries and related expenses	526,105	401,221	-	393,936	1,321,262	284,814	111,960	396,774	1,718,036
Mortgage discounts	-	-	955,998	-	955,998	-	-	-	955,998
Lease expense	33,657	26,655	-	131,965	192,277	26,655	33,951	60,606	252,883
Printing and public relations	368	10	-	1,318	1,696	245,230	426	245,656	247,352
Office expenses	30,198	25,567	-	53,319	109,084	27,639	25,781	53,420	162,504
Other	17,816	22,631	-	30,827	71,274	24,290	15,960	40,250	111,524
Depreciation	-	-	-	-	-	-	71,633	71,633	71,633
Interest	49,379	-	-	-	49,379	-	20,349	20,349	69,728
Special events	-	-	-	-	-	60,522	-	60,522	60,522
Legal and professional	4,526	13,706	-	6,051	24,283	15,732	18,899	34,631	58,914
Deconstruction	-	-	-	47,272	47,272	-	-	-	47,272
Auto	19,687	344	-	18,367	38,398	6,412	1,667	8,079	46,477
Repairs and maintenance	11,292	7,546	-	20,270	39,108	3,056	3,256	6,312	45,420
Small tools and equipment	40,775	-	-	-	40,775	-	-	-	40,775
Sponsor and volunteer appreciation	-	-	-	-	-	32,521	-	32,521	32,521
Taxes and insurance	16,354	1,047	-	5,024	22,425	2,984	2,222	5,206	27,631
Bank and credit card fees	1,000	-	-	14,571	15,571	-	6,402	6,402	21,973
Tithe to Habitat for Humanity International, Inc.	19,893	-	-	-	19,893	-	-	-	19,893
Advertising	-	5,000	-	11,342	16,342	307	-	307	16,649
Donations	-	-	-	-	-	3,600	2,150	5,750	5,750
	<u>\$ 3,302,324</u>	<u>\$ 503,727</u>	<u>\$ 955,998</u>	<u>\$ 734,262</u>	<u>\$ 5,496,311</u>	<u>\$ 733,762</u>	<u>\$ 314,656</u>	<u>\$ 1,048,418</u>	<u>\$ 6,544,729</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – ORGANIZATION AND PURPOSE

Nashville Area Habitat for Humanity, Inc. (“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

The financial statements of Habitat have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Habitat and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Habitat and/or the passage of time. Temporarily restricted net assets at June 30, 2007 and 2006 consist of contributions received and receivable restricted for home construction and the unamortized discount on interest-free loans payable.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Habitat. Habitat has no permanently restricted net assets at June 30, 2007 or 2006.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, Habitat reports the support as unrestricted.

Reclassifications

Certain reclassifications have been made to 2006 balances to conform with 2007 presentation.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized as revenue when received.

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 a risk-free 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.

Contributed land and equipment are recorded at fair value at the date of the donation.

HomeStore sales are recognized as revenue at the time merchandise is transferred to the customer. Sales returns have not been significant.

In-kind contributions (primarily land for development and construction materials) 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.

Unearned revenue on second mortgage loans represents the discounted value of non-interest bearing second mortgage loans obtained on Habitat homes. The homeowner is required to sign a second mortgage for the difference between the estimated fair market value of the home, and the first mortgage balance as of the transfer date. The scheduled payment on the second mortgage loan is forgiven by Habitat each time a payment is received on the first mortgage. Habitat does not foresee collection of the second mortgage loans except in the event of sale or refinancing of the home by the owner.

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 4.75% to 10% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of home building activity for 2007 is as follows:

	<u>Number</u>	<u>Costs</u>
Homes under construction, June 30, 2006	19	\$ 713,379
Additional costs incurred on beginning inventory		963,763
New homes started in 2007	40	3,076,043
Homes transferred in 2007	<u>(43)</u>	<u>(4,093,299)</u>
Homes under construction, June 30, 2007	<u>16</u>	<u>\$ 659,886</u>

Grant Revenues

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, HomeStore operations, family 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 homes transferred, which have an average cost of \$95,193 and \$84,376 for the years ended June 30, 2007 and 2006, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$25,141 and \$16,649 for the years ended June 30, 2007 and 2006, respectively.

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 five years.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land Held for Development

Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. During fiscal 2006, Habitat purchased approximately twenty-five acres of unimproved land for approximately \$1,800,000. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of building activities.

Income Taxes

Habitat is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Accordingly, federal income taxes are not provided in the accompanying financial statements.

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.

Investments

Investments are stated at fair value in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give in the amount of \$809,825 and \$1,144,310 at June 30, 2007 and 2006, respectively. The amounts deposited are from sponsors of future home building that are refundable to the donors in the event that construction does not occur.

Summarized Financial Information

The financial statements include certain 2005 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2005, from which the summarized information was derived.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Habitat has included unconditional promises to give as contributions receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are scheduled to be received as follows at June 30, 2007:

Amount receivable within one year	\$ 215,146
Amount receivable in 1 to 5 years	<u>25,828</u>
	240,974
Less allowance for uncollectible contributions	<u>(15,000)</u>
Contributions receivable, net	<u>\$ 225,974</u>

NOTE 4 – GRANTS RECEIVABLE

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

	<u>2007</u>	<u>2006</u>
Foundation and other	\$ 251,000	\$ 1,000
Federal Home Loan Bank	<u>-</u>	<u>19,908</u>
	<u>\$ 251,000</u>	<u>\$ 20,908</u>

NOTE 5 – INVESTMENTS

Investments consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Certificates of deposit	<u>\$ -</u>	<u>\$ 10,000</u>

Investment income is comprised entirely of dividends and interest income for the years ended June 30, 2007 and 2006.

NOTE 6 – PROPERTY AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Office equipment	\$ 231,212	\$ 197,446
Leasehold improvements	260,220	173,051
Vehicles and trailers	114,241	88,691
Other	<u>127,272</u>	<u>87,230</u>
	732,945	546,418
Less accumulated depreciation	<u>(412,025)</u>	<u>(333,387)</u>
	<u>\$ 320,920</u>	<u>\$ 213,031</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 7 – TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

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, 2007 and 2006, Habitat contributed \$67,481 and \$19,893, respectively, to Habitat International.

NOTE 8 – LINE OF CREDIT

Habitat has a \$500,000 unsecured line of credit agreement with a bank bearing interest at the bank's prime interest rate. The line of credit has a maturity date of December 2007. At June 30, 2007, no borrowings were outstanding under the line of credit agreement.

NOTE 9 – NOTES PAYABLE

	2007	2006
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$100 to \$1,614 through December 2011.	\$ 177,856	\$ 174,486
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of \$16,097 through June 2037, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$2,583,656. The notes payable have an undiscounted balance outstanding of \$4,711,861 and \$2,956,375 at June 30, 2007 and 2006, respectively. A discount rate of 4.75% was applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$935,339 and \$552,107 has been recognized in 2007 and 2006, 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 on the straight-line method over the respective terms of the notes. The unamortized discount at June 30, 2007 and 2006 amounted to \$2,128,205 and \$1,257,158, respectively.	2,583,656	1,699,217
Note payable to Nashville Housing Fund, Inc., bearing interest at 5%, secured by certain real property held for development, maturing June 2008.	115,000	295,000

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 9 – NOTES PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Note payable to Nashville Housing Fund, Inc. The note is non-interest bearing, secured by certain real property and matures June 2008.	35,000	35,000
Note payable to Habitat International, bearing interest at 3.25%, payable in monthly installments including interest of \$4,207 through December 2010. The note is secured by non-interest bearing first mortgages held by Habitat with principal balances in excess of the note payable balances.	166,359	210,530
Note payable to Habitat International, bearing interest at 3.63%, payable in monthly installments including interest of \$5,299 through December 2011. The note is secured by non-interest bearing first mortgages held by Habitat with principal balances in excess of the note payable balances.	262,896	315,736
Note payable to finance company secured by equipment, payable in monthly installments of \$1,327, including interest at .76%, maturing September 2007.	3,975	19,480
Note payable to bank secured by certain real property held for development, interest payable monthly at 6.25%, maturing April 2011.	1,063,889	1,795,210
Note payable to bank, non-interest bearing, unsecured, maturing December 2007.	<u>100,000</u>	<u>100,000</u>
	<u>\$ 4,508,631</u>	<u>\$ 4,644,659</u>
Year ending June 30,		
2008	\$ 606,070	
2009	354,859	
2010	337,274	
2011	297,575	
2012	1,295,012	
Thereafter	<u>3,746,046</u>	
Total principal maturities	6,636,836	
Amounts representing imputed interest	<u>(2,128,205)</u>	
	<u>\$ 4,508,631</u>	

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 10 – 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. Management believes Habitat is not exposed to any significant credit risk on cash.

NOTE 11 – IN-KIND CONTRIBUTIONS

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

	<u>2007</u>	<u>2006</u>
Building supplies and home appliances	\$ 230,707	\$ 250,143
Land	-	11,800
Property and equipment and other	<u>31,550</u>	<u>26,639</u>
	<u>\$ 262,257</u>	<u>\$ 288,582</u>

During the years ended June 30, 2007 and 2006, approximately 12,000 and 9,000 individuals, respectively, contributed significant amounts of time to Habitat's activities. The financial statements do not reflect the value of these services because they do not meet the recognition criteria of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Providence Park subdivision, Habitat has obtained letters of credit in the amounts of \$769,500 and \$469,750 at June 30, 2007 and 2006, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2007 and 2006. The letters of credit expire at various dates through December 2007.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$302,562 and \$252,883 in 2007 and 2006, respectively.

A summary of future minimum rental payments as of June 30, 2007 is as follows:

Year ending June 30,	
2008	\$ 210,889
2009	143,270
2010	106,620
2011	88,850
Thereafter	<u>-</u>
	<u>\$ 549,629</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 13 – 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.

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information required by SFAS No. 95 *Statement of Cash Flows*.

Supplemental Cash Flow Information

	2007	2006
Interest paid	\$ 188,460	\$ 88,740

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$3,504,083	\$ 2,159,166
Discount on non-interest bearing mortgage loans	(1,731,478)	(955,998)
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 1,772,605	\$ 1,203,168
Loans transferred to real estate held for sale	\$ 78,963	\$ -
Purchase of equipment through issuance of note payable	\$ -	\$ 31,273
Purchase of land held for development through issuance of note payable	\$ -	\$ 1,795,210
Contribution of property and equipment	\$ 31,550	\$ -