

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

FINANCIAL STATEMENTS

June 30, 2010 and 2009

NASHVILLE AREA HABITAT FOR HUMANITY, INC.

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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, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows 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.

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 the 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, 2010 and 2009, 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, 2010
Nashville, Tennessee

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	2010	2009
Assets		
Cash, including escrow accounts of \$307,809 and \$275,080, respectively	\$ 1,425,399	\$ 1,434,643
Foundation grants receivable	1,483,753	435,770
Sponsor and other receivables	125,074	161,857
Contributions receivable, net	50,147	130,303
Real estate held for sale	153,381	50,784
Construction-in-progress	1,276,736	1,481,476
Property and equipment, net	203,603	277,737
Land held for development	4,569,888	4,964,794
Non-interest bearing mortgage loans, net of discounts of \$12,622,104 and \$11,319,108, respectively	15,349,781	13,016,792
Other assets	615,626	593,231
Total assets	\$ 25,253,388	\$ 22,547,387
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 555,821	\$ 747,284
Escrow accounts	307,809	275,080
Notes payable	9,638,416	8,736,650
Deferred revenue	1,350,796	778,139
Unearned revenue on mortgage loans	4,383,726	3,850,351
Total liabilities	16,236,568	14,387,504
Net assets:		
Unrestricted	3,837,941	3,444,637
Temporarily restricted	5,178,879	4,715,246
Total net assets	9,016,820	8,159,883
Total liabilities and net assets	\$ 25,253,388	\$ 22,547,387

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$ 4,710,750	\$ -	\$ 4,710,750	\$ 3,232,850
Cash contributions	2,471,406	-	2,471,406	1,742,362
Grant income	1,691,384	-	1,691,384	1,538,331
HomeStore sales	1,245,811	-	1,245,811	1,303,155
THDA interest contribution	-	1,121,282	1,121,282	844,220
In-kind contributions	549,093	-	549,093	235,106
Mortgage loan discount amortization	422,272	-	422,272	449,192
Other income	159,740	-	159,740	77,742
Interest income	2,198	-	2,198	6,145
	11,252,654	1,121,282	12,373,936	9,429,103
Net assets released from restrictions	657,649	(657,649)	-	-
Total support and revenue	11,910,303	463,633	12,373,936	9,429,103
Expenses:				
Program services	9,910,009	-	9,910,009	7,883,080
Supporting services	1,606,990	-	1,606,990	1,726,419
Total expenses	11,516,999	-	11,516,999	9,609,499
Change in net assets	393,304	463,633	856,937	(180,396)
Net assets at beginning of year	3,444,637	4,715,246	8,159,883	8,340,279
Net assets at end of year	<u>\$ 3,837,941</u>	<u>\$ 5,178,879</u>	<u>\$ 9,016,820</u>	<u>\$ 8,159,883</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2009
(with comparative totals for the year ended June 30, 2008)

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$3,232,850	\$ -	\$3,232,850	\$3,812,375
Cash contributions	1,136,200	606,162	1,742,362	3,778,894
Grant income	1,433,033	105,298	1,538,331	2,731,736
HomeStore sales	1,303,155	-	1,303,155	1,190,206
THDA interest contribution	-	844,220	844,220	1,268,294
Mortgage loan discount amortization	449,192	-	449,192	345,622
In-kind contributions	235,106	-	235,106	171,156
Other income	77,742	-	77,742	106,492
Interest income	6,145	-	6,145	21,829
	<u>7,873,423</u>	<u>1,555,680</u>	<u>9,429,103</u>	<u>13,426,604</u>
Net assets released from restrictions	1,033,732	(1,033,732)	-	-
Total support and revenue	<u>8,907,155</u>	<u>521,948</u>	<u>9,429,103</u>	<u>13,426,604</u>
Expenses:				
Program services	7,883,080	-	7,883,080	9,133,380
Supporting services	1,726,419	-	1,726,419	2,025,305
Total expenses	<u>9,609,499</u>	<u>-</u>	<u>9,609,499</u>	<u>11,158,685</u>
Change in net assets from operations	(702,344)	521,948	(180,396)	2,267,919
Contribution of net assets from Dickson County Habitat for Humanity	-	-	-	220,176
Change in net assets	(702,344)	521,948	(180,396)	2,488,095
Net assets at beginning of year	<u>4,146,981</u>	<u>4,193,298</u>	<u>8,340,279</u>	<u>5,852,184</u>
Net assets at end of year	<u>\$3,444,637</u>	<u>\$4,715,246</u>	<u>\$8,159,883</u>	<u>\$8,340,279</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 856,937	\$ (180,396)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash construction costs	233,955	340,625
Contribution of real estate held for sale	(107,000)	-
Transfers to homeowners	(2,578,735)	(1,772,518)
Depreciation	97,015	101,808
Loss on disposal of fixed assets	-	810
Gain on sale of mortgages	(85,276)	-
Mortgage loan discount amortization	(420,665)	(392,958)
Changes in operating assets and liabilities:		
Grants receivable	(1,047,983)	169,561
Sponsor and other receivables	116,939	645,385
Construction-in-progress	204,740	(445,954)
Land held for development	394,906	656,402
Other assets	(22,395)	(7,587)
Accounts payable and accrued expenses	(191,463)	117,318
Escrow accounts	32,729	1,297
Deferred revenue	572,657	206,497
Net cash used in operating activities	<u>(1,943,639)</u>	<u>(559,710)</u>
Cash flows from investing activities:		
Improvements to real estate held for sale	(40,554)	(44,225)
Purchases of property and equipment	(22,881)	(12,301)
Proceeds from sale of investments	-	1,054
Proceeds from sale of mortgages	227,928	-
Mortgage payments received	868,136	852,827
Net cash provided by investing activities	<u>1,032,629</u>	<u>797,355</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	2,399,022	1,570,826
Repayments on notes payable	(1,497,256)	(966,248)
Net cash provided by financing activities	<u>901,766</u>	<u>604,578</u>
Net (decrease) increase in cash and cash equivalents	(9,244)	842,223
Cash and cash equivalents at beginning of year	<u>1,434,643</u>	<u>592,420</u>
Cash and cash equivalents at end of year	<u>\$ 1,425,399</u>	<u>\$ 1,434,643</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2010

	Program Services				Supporting Services				
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs	\$ 4,487,306	\$ -	\$ -	\$ -	\$ 4,487,306	\$ -	\$ -	\$ -	\$ 4,487,306
Salaries and related expenses	876,197	469,230	-	567,331	1,912,758	501,941	176,572	678,513	2,591,271
Mortgage discounts	-	-	2,132,150	-	2,132,150	-	-	-	2,132,150
Lease expense	61,157	24,695	-	297,155	383,007	31,747	35,516	67,263	450,270
Other	102,335	50,008	-	19,927	172,270	36,397	104,825	141,222	313,492
Printing and public relations	1,206	5,153	-	2,128	8,487	289,752	3,631	293,383	301,870
Legal and professional	5,293	37,608	-	-	42,901	33,386	199,421	232,807	275,708
Interest	241,181	-	-	452	241,633	-	6,818	6,818	248,451
Office expenses	50,667	32,159	-	65,792	148,618	38,284	20,690	58,974	207,592
Depreciation	30,419	38,967	-	16,979	86,365	5,824	4,826	10,650	97,015
Taxes and insurance	66,547	6,645	-	11,141	84,333	6,645	5,264	11,909	96,242
Repairs and maintenance	39,078	3,174	-	17,519	59,771	3,007	3,263	6,270	66,041
Auto	36,115	1,747	-	11,555	49,417	8,576	738	9,314	58,731
Bank and credit card fees	-	-	-	30,335	30,335	-	13,034	13,034	43,369
Small tools and equipment	40,070	-	-	54	40,124	-	-	-	40,124
Special events	-	-	-	-	-	35,382	-	35,382	35,382
Sponsor and volunteer appreciation	-	-	-	-	-	27,010	-	27,010	27,010
Advertising	-	9,674	-	2,601	12,275	11,096	30	11,126	23,401
Deconstruction	-	-	-	9,859	9,859	-	-	-	9,859
Tithe to Habitat for Humanity International, Inc.	8,400	-	-	-	8,400	-	-	-	8,400
Donations	-	-	-	-	-	3,190	125	3,315	3,315
	<u>\$ 6,045,971</u>	<u>\$ 679,060</u>	<u>\$ 2,132,150</u>	<u>\$ 1,052,828</u>	<u>\$ 9,910,009</u>	<u>\$ 1,032,237</u>	<u>\$ 574,753</u>	<u>\$ 1,606,990</u>	<u>\$ 11,516,999</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2009

	Program Services				Supporting Services				
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs	\$ 3,156,703	\$ -	\$ -	\$ -	\$ 3,156,703	\$ -	\$ -	\$ -	\$ 3,156,703
Salaries and related expenses	891,266	511,860	-	560,091	1,963,217	552,982	188,470	741,452	2,704,669
Mortgage discounts	-	-	1,460,332	-	1,460,332	-	-	-	1,460,332
Lease expense	61,534	21,466	-	256,864	339,864	27,576	44,897	72,473	412,337
Printing and public relations	557	124	-	722	1,403	306,002	2,457	308,459	309,862
Legal and professional	131,798	35,041	-	-	166,839	4,782	115,889	120,671	287,510
Other	93,635	30,316	-	12,851	136,802	41,438	71,134	112,572	249,374
Office expenses	60,032	29,160	-	76,751	165,943	33,877	31,097	64,974	230,917
Interest	182,817	-	-	404	183,221	-	10,184	10,184	193,405
Advertising	5,557	3,150	-	5,952	14,659	90,024	1,793	91,817	106,476
Depreciation	-	-	-	-	-	-	101,808	101,808	101,808
Taxes and insurance	73,659	3,713	-	9,736	87,108	3,713	4,461	8,174	95,282
Auto	33,424	3,930	-	16,630	53,984	10,915	800	11,715	65,699
Repairs and maintenance	24,720	1,937	-	20,575	47,232	1,937	4,835	6,772	54,004
Tithe to Habitat for Humanity International, Inc.	50,550	-	-	-	50,550	-	-	-	50,550
Special events	-	-	-	-	-	40,908	-	40,908	40,908
Bank and credit card fees	293	-	-	27,846	28,139	-	5,948	5,948	34,087
Sponsor and volunteer appreciation	-	-	-	-	-	26,392	-	26,392	26,392
Deconstruction	-	-	-	13,096	13,096	-	-	-	13,096
Small tools and equipment	13,902	-	-	86	13,988	-	-	-	13,988
Donations	-	-	-	-	-	2,000	100	2,100	2,100
	<u>\$ 4,780,447</u>	<u>\$ 640,697</u>	<u>\$ 1,460,332</u>	<u>\$ 1,001,604</u>	<u>\$ 7,883,080</u>	<u>\$ 1,142,546</u>	<u>\$ 583,873</u>	<u>\$ 1,726,419</u>	<u>\$ 9,609,499</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on Habitat’s financial statements.

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.

On January 1, 2009, Habitat adopted FASB ASC guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity’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 fifty percent likely of being realized upon ultimate settlement. This guidance must be applied to all existing tax positions upon initial adoption. Habitat has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended June 30, 2007 through June 30, 2010. Habitat had no uncertain tax positions as of June 30, 2010 or 2009.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010 and 2009 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, 2010 and 2009.

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.

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 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.

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.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 mortgage loans represents the discounted value of non-interest bearing second and third mortgage loans obtained 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 first mortgage balance as of the transfer date. 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 second and third mortgage loans except in the event of sale, refinance or foreclosure of the home.

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 4.5% 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. Habitat recognizes revenue from loan discount amortization

A summary of home building activity for 2010 is as follows:

	<u>Number</u>	<u>Costs</u>
Homes under construction, June 30, 2009	19	\$ 1,481,476
Additional costs incurred on beginning inventory		712,853
New homes started in 2010	58	3,569,713
Homes closed in 2010	(51)	(4,487,306)
Homes under construction, June 30, 2010	26	\$ 1,276,736

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.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$87,986 and \$90,192 for the years ended June 30, 2010 and 2009, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$23,401 and \$106,476 for the years ended June 30, 2010 and 2009, 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.

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. The total allocated cost of each lot is charged to construction in progress upon commencement of building activities.

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.

Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give in the amount of \$1,350,796 and \$778,139 at June 30, 2010 and 2009, 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 2008 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Financial Information (Continued)

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, 2008, from which the summarized information was derived.

Subsequent Events

Habitat evaluated subsequent events through September 13, 2010 when these financial statements were available to be issued. Habitat 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 – CONTRIBUTIONS RECEIVABLE

Habitat has included unconditional promises to give as contributions receivable. Contributions are scheduled to be received as follows at June 30:

	<u>2010</u>	<u>2009</u>
Amount receivable within one year	\$ 97,334	\$ 149,786
Amount receivable in 1 to 5 years	<u>43,600</u>	<u>20,517</u>
	140,934	170,303
Less allowance for uncollectible contributions	<u>(90,787)</u>	<u>(40,000)</u>
Contributions receivable, net	<u>\$ 50,147</u>	<u>\$ 130,303</u>

NOTE 4 – GRANTS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Foundations and other	\$ 1,470,520	\$ 422,537
Metropolitan Development and Housing Agency	<u>13,233</u>	<u>13,233</u>
	<u>\$ 1,483,753</u>	<u>\$ 435,770</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 203,935	\$ 195,626
Leasehold improvements	196,025	196,025
Vehicles and trailers	203,345	203,344
Other	<u>146,443</u>	<u>131,872</u>
	749,748	726,867
Less accumulated depreciation	<u>(546,145)</u>	<u>(449,130)</u>
	<u>\$ 203,603</u>	<u>\$ 277,737</u>

NOTE 6 – 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, 2010 and 2009, Habitat contributed \$8,400 and \$50,550, respectively, to Habitat International.

NOTE 7 – LINE OF CREDIT

Habitat has a \$750,000 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 September 2010. Management intends to renew the line of credit agreement with its bank. At June 30, 2010 and 2009, no borrowings were outstanding under the line of credit agreement.

NOTE 8 – NOTES PAYABLE

	<u>2010</u>	<u>2009</u>
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$100 to \$1,287 through July 2016.	\$ 289,069	\$ 264,135
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of \$34,242 through June 2039, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$5,608,699. The notes payable have an undiscounted balance outstanding of \$10,414,527 and \$8,477,388 at June 30, 2010 and 2009, respectively. A		

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 8 – NOTES PAYABLE (Continued)

	<u>2010</u>	<u>2009</u>
discount rate of 4.5% and 5.2% was applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$1,121,282 and \$844,220 has been recognized in 2010 and 2009, 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, 2010 and 2009 amounted to \$4,805,828 and \$3,933,903, respectively.	5,608,699	4,543,485
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.	24,935	73,610
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.	92,466	151,356
Notes payable to finance company secured by equipment, non-interest bearing, payable in monthly installments of \$385, maturing May 2013.	13,469	65,219
Notes payable to bank secured by certain real property, non-interest bearing, payable in monthly installments of \$146 and \$191, maturing November 2013 and April 2015.	16,104	20,140
Note payable to bank bearing interest at 2.75%, secured by certain real property held for development, maturing July 2010.	238,988	922,143
Note payable to bank, unsecured, non-interest bearing, held for development, maturing September 2011.	100,000	-

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 8 – NOTES PAYABLE (Continued)

	2010	2009
Note payable to bank, secured by certain real property, interest-only at the bank's index rate, with a floor of 4.5% (4.5% at June 30, 2010) until September 2011, at which time the entire principal balance is due in full.	347,486	-
Note payable to The Housing Fund bearing interest at 4.25%, secured by certain real property held for development, maturing December 2012.	480,115	-
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (0% at June 30, 2010), secured by certain real property held for development, maturing July 2015.	2,200,000	2,200,000
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 2.0% (1.25% at June 30, 2010), secured by certain real property held for development, maturing October 2012.	227,085	478,550
Note payable to bank bearing interest at 6.25%, secured by certain equipment, maturing February 2012.	-	18,012
	<u>\$ 9,638,416</u>	<u>\$ 8,736,650</u>

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2011	\$ 818,915
2012	1,196,019
2013	961,918
2014	448,811
2015	439,489
Thereafter	10,579,092
Total principal maturities	14,444,244
Amounts representing imputed interest	(4,805,828)
	<u>\$ 9,638,416</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist principally of contributions restricted for future programs or improvements to existing programs. Significant components include the following at June 30:

	2010	2009
THDA unamortized discount	\$ 4,805,828	\$ 3,933,903
Donor restricted contribution	322,904	597,040
Mortgage reductions for people with disabilities	-	54,000
Contributions receivable, net	50,147	130,303
	\$ 5,178,879	\$ 4,715,246

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. Deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”). Management believes Habitat is not exposed to any significant credit risk on cash. Uninsured balances at June 30, 2010 and 2009 totaled \$34,413 and \$0, respectively. At July 1, 2010, Habitat’s principal depository terminated its participation in the FDIC’s Transaction Account Guarantee Program. At that date, an additional \$765,382 was uninsured. Habitat subsequently established a collateralized sweep account to fully mitigate the risk of uninsured cash balances.

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:

	2010	2009
Building supplies and home appliances	\$ 322,093	\$ 165,106
Land	122,000	-
In-kind rent	105,000	70,000
	\$ 549,093	\$ 235,106

During the years ended June 30, 2010 and 2009, approximately 6,000 and 8,000 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 prescribed by generally accepted accounting principles.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Providence Park and Timberwood subdivisions, Habitat has obtained letters of credit totaling \$2,087,000 and \$635,000 at June 30, 2010 and 2009, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2010 and 2009. The letters of credit expire at various dates through June 2011.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$450,270 and \$412,337 in 2010 and 2009, respectively.

A summary of future minimum rental payments as of June 30, 2010 is as follows:

Year ending June 30,	
2011	\$ 308,278
2012	<u>91,155</u>
	<u>\$ 399,433</u>

Habitat has a commitment from THDA at June 30, 2010 to provide an additional \$472,350 in loan funds secured by non-interest bearing first mortgages held by Habitat. Habitat will recognize contribution revenue in fiscal 2011 of approximately \$213,000 related to the difference between the undiscounted notes payable and their calculated present value at time of issuance.

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 FASB ASC 230.

Supplemental Cash Flow Information

	<u>2010</u>	<u>2009</u>
Interest paid	<u>\$ 248,451</u>	<u>\$ 193,405</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$ 4,710,750	\$ 3,232,850
Discount on non-interest bearing mortgage loans	<u>(2,132,015)</u>	<u>(1,460,332)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 2,578,735</u>	<u>\$ 1,772,518</u>
Loans transferred to real estate held for sale	<u>\$ 188,998</u>	<u>\$ 181,925</u>
Purchase of equipment through issuance of note payable	<u>\$ -</u>	<u>\$ 20,060</u>
Contribution of land	<u>\$ 107,000</u>	<u>\$ -</u>

NOTE 15 – LITIGATION

Habitat is, from time to time, 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.