# HABITAT FOR HUMANITY
# OF GREATER NASHVILLE

## FINANCIAL STATEMENTS

**June 30, 2013 and 2012**

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**

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FRASIERDEAN
HOWARDCPAs

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for Financial Statements

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

### Auditor's Responsibility

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

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

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

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Nashville, as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dean + Howard, PLLC

September 13, 2013
Nashville, Tennessee

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**STATEMENTS OF FINANCIAL POSITION**
**June 30, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents, including escrow accounts of $417,520 and $299,780, respectively | $ 2,938,358 | $ 1,829,051 |
| Grants receivable | 457,779 | 645,473 |
| Sponsor and other receivables | 310,314 | 246,535 |
| Contributions receivable, net | 9,250 | 87,870 |
| Real estate held for sale | 739,266 | 233,409 |
| Construction-in-progress | 731,337 | 234,403 |
| Property and equipment, net | 593,112 | 359,305 |
| Land held for development | 3,598,417 | 3,905,227 |
| Non-interest bearing mortgage loans, net of discounts of $17,502,744 and $15,811,151, respectively | 22,947,473 | 20,043,622 |
| New Markets Tax Credit "NMTC" intangible assets, net | 64,619 | - |
| NMTC joint venture investment | 1,431,254 | - |
| NMTC joint venture cash | 126,964 | - |
| Other assets | 901,501 | 874,309 |
| Total assets | $ 34,849,644 | $ 28,459,204 |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued expenses | $ 466,492 | $ 446,104 |
| Escrow accounts | 441,868 | 331,600 |
| Notes payable | 13,140,478 | 11,732,629 |
| NMTC joint venture note payable | 1,880,000 | - |
| Deferred revenue | 814,268 | 420,499 |
| Unearned revenue on mortgage loans | 5,394,712 | 4,757,839 |
| Total liabilities | 22,137,818 | 17,688,671 |
| Net assets: | | |
| Unrestricted | 3,757,920 | 2,958,954 |
| Temporarily restricted | 8,953,906 | 7,811,579 |
| Total net assets | 12,711,826 | 10,770,533 |
| Total liabilities and net assets | $ 34,849,644 | $ 28,459,204 |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**STATEMENT OF ACTIVITIES**
**For the year ended June 30, 2013**
**(with comparative totals for the year ended June 30, 2012)**

| | 2013 | | | 2012 |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** | **Total** |
| Support and revenue: | | | | |
| Transfers to homeowners | $ 4,116,887 | $ - | $ 4,116,887 | $ 4,967,272 |
| Cash contributions | 2,452,002 | 181,150 | 2,633,152 | 2,575,323 |
| Grant income | 1,219,516 | - | 1,219,516 | 1,813,133 |
| HomeStore sales | 1,775,679 | - | 1,775,679 | 1,533,163 |
| THDA interest contribution | - | 1,419,710 | 1,419,710 | 1,303,885 |
| In-kind contributions | 410,852 | - | 410,852 | 668,847 |
| Mortgage loan discount amortization | 577,270 | - | 577,270 | 480,573 |
| Other income | 54,290 | - | 54,290 | 57,071 |
| NMTC investment income | 10,654 | - | 10,654 | - |
| Interest income | 2,810 | - | 2,810 | 3,063 |
| | 10,619,960 | 1,600,860 | 12,220,820 | 13,402,330 |
| Net assets released from restrictions | 606,777 | (606,777) | - | - |
| Total support and revenue | 11,226,737 | 994,083 | 12,220,820 | 13,402,330 |
| Expenses: | | | | |
| Program services | 9,559,027 | - | 9,559,027 | 10,583,045 |
| Supporting services | 1,856,789 | - | 1,856,789 | 1,650,986 |
| Total expenses | 11,415,816 | - | 11,415,816 | 12,234,031 |
| Change in net assets from operations | (189,079) | 994,083 | 805,004 | 1,168,299 |
| Contribution of net assets from Habitat for Humanity of Wilson County, Inc. | 988,045 | 148,244 | 1,136,289 | - |
| Change in net assets | 798,966 | 1,142,327 | 1,941,293 | 1,168,299 |
| Net assets at beginning of year | 2,958,954 | 7,811,579 | 10,770,533 | 9,602,234 |
| Net assets at end of year | $ 3,757,920 | $ 8,953,906 | $ 12,711,826 | $ 10,770,533 |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**STATEMENT OF ACTIVITIES**
**For the year ended June 30, 2012**
**(with comparative totals for the year ended June 30, 2011)**

| | 2012 | | | 2011 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| Support and revenue: | | | | |
| Transfers to homeowners | $ 4,967,272 | $ - | $ 4,967,272 | $ 6,673,224 |
| Cash contributions | 1,919,818 | 655,505 | 2,575,323 | 3,679,294 |
| THDA interest contribution | - | 1,303,885 | 1,303,885 | 1,366,052 |
| HomeStore sales | 1,533,163 | - | 1,533,163 | 1,340,753 |
| Grant income | 1,813,133 | - | 1,813,133 | 890,728 |
| In-kind contributions | 668,847 | - | 668,847 | 590,604 |
| Mortgage loan discount amortization | 480,573 | - | 480,573 | 476,598 |
| Other income | 57,071 | - | 57,071 | 384,095 |
| Interest income | 3,063 | - | 3,063 | 3,495 |
| | 11,442,940 | 1,959,390 | 13,402,330 | 15,404,843 |
| Net assets released from restrictions | 811,040 | (811,040) | - | - |
| Total support and revenue | 12,253,980 | 1,148,350 | 13,402,330 | 15,404,843 |
| Expenses: | | | | |
| Program services | 10,583,045 | - | 10,583,045 | 13,053,606 |
| Supporting services | 1,650,986 | - | 1,650,986 | 1,765,823 |
| Total expenses | 12,234,031 | - | 12,234,031 | 14,819,429 |
| Change in net assets | 19,949 | 1,148,350 | 1,168,299 | 585,414 |
| Net assets at beginning of year | 2,939,005 | 6,663,229 | 9,602,234 | 9,016,820 |
| Net assets at end of year | $ 2,958,954 | $ 7,811,579 | $ 10,770,533 | $ 9,602,234 |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**STATEMENTS OF CASH FLOWS**
**For the years ended June 30, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 1,941,293 | $ 1,168,299 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Contribution of net assets from Wilson County | (1,136,289) | - |
| Non-cash construction costs | 371,118 | 470,680 |
| THDA interest contribution | (1,419,710) | (1,303,885) |
| Contribution of real estate | - | (67,000) |
| Transfers to homeowners | (2,219,269) | (2,697,173) |
| Depreciation and amortization | 143,304 | 113,677 |
| Bad debt expense | 71,130 | 10,034 |
| Loss on disposal of fixed assets | - | 20,827 |
| Mortgage loan discount amortization | (577,270) | (480,573) |
| Amortization of discount on notes payable | 306,106 | 244,055 |
| Changes in operating assets and liabilities: | | |
| NMTC joint venture cash | (126,964) | - |
| Grants receivable | 187,694 | (107,819) |
| Sponsor and other receivables | (27,057) | (30,616) |
| Construction-in-progress | (496,934) | (88,513) |
| Land held for development | 306,810 | 196,059 |
| Other assets | 17,272 | (128,642) |
| Accounts payable and accrued expenses | 53 | 208,883 |
| Escrow accounts | 5,945 | (13,992) |
| Deferred revenue | 393,769 | (10,044) |
| Net cash used in operating activities | (2,258,999) | (2,495,743) |
| Cash flows from investing activities: | | |
| Cash received from Wilson County | 338,194 | - |
| Improvements to real estate held for sale | (613,268) | (372,372) |
| Purchases of property and equipment | (128,549) | (179,060) |
| Proceeds from disposal of fixed assets | - | 175 |
| Mortgage payments received | 1,316,820 | 1,036,007 |
| NMTC joint venture investment | (1,431,254) | - |
| Acquisition of NMTC intangible assets | (71,287) | - |
| Net cash (used in) provided by investing activities | (589,344) | 484,750 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of notes payable | 3,334,191 | 3,795,811 |
| Repayments on notes payable | (1,256,541) | (1,521,076) |
| Proceeds from NMTC note payable | 1,880,000 | - |
| Net cash provided by financing activities | 3,957,650 | 2,274,735 |
| Net increase in cash and cash equivalents | 1,109,307 | 263,742 |
| Cash and cash equivalents at beginning of year | 1,829,051 | 1,565,309 |
| Cash and cash equivalents at end of year | $ 2,938,358 | $ 1,829,051 |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**STATEMENT OF FUNCTIONAL EXPENSES**
**For the year ended June 30, 2013**

| | Program Services | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Construction | Family Support and Educational Ministries | Discounts on Mortgage Obligations | ReStore Operations | Total | Fund Raising | Management and General | Total | Total |
| Construction costs-new homes | $ 3,536,071 | $ - | $ - | $ - | $ 3,536,071 | $ - | $ - | $ - | $ 3,536,071 |
| Salaries and related expenses | 668,943 | 561,903 | - | 955,160 | 2,186,006 | 879,226 | 271,747 | 1,150,973 | 3,336,979 |
| Mortgage discounts | - | - | 1,812,339 | - | 1,812,339 | - | - | - | 1,812,339 |
| Lease expense | 84,236 | 40,133 | - | 245,243 | 369,612 | 51,819 | 16,895 | 68,714 | 438,326 |
| Construction costs-reconstruction | 409,294 | - | - | - | 409,294 | - | - | - | 409,294 |
| Interest | 314,508 | 2,037 | - | 6,939 | 323,484 | 2,037 | 21,249 | 23,286 | 346,770 |
| Other | 14,562 | 62,793 | - | 32,442 | 109,797 | 92,310 | 51,508 | 143,818 | 253,615 |
| Office expenses | 40,712 | 28,891 | - | 84,253 | 153,856 | 51,432 | 14,111 | 65,543 | 219,399 |
| Legal and professional | 27,936 | 61,623 | - | - | 89,559 | 9,820 | 88,222 | 98,042 | 187,601 |
| Depreciation | 45,279 | 18,248 | - | 39,544 | 103,071 | 26,109 | 7,456 | 33,565 | 136,636 |
| Taxes and insurance | 64,837 | 9,745 | - | 36,039 | 110,621 | 12,230 | 4,001 | 16,231 | 126,852 |
| Vehicle expenses | 58,184 | 3,405 | - | 35,111 | 96,700 | 8,432 | 1,335 | 9,767 | 106,467 |
| Repairs and maintenance | 52,224 | 7,441 | - | 28,045 | 87,710 | 4,077 | 1,698 | 5,775 | 93,485 |
| Tithe to Habitat for Humanity International, Inc. | 82,986 | - | - | - | 82,986 | - | - | - | 82,986 |
| Printing and public relations | 242 | 337 | - | 5,557 | 6,136 | 72,565 | 300 | 72,865 | 79,001 |
| Bad debt expense | - | - | - | - | - | - | 71,130 | 71,130 | 71,130 |
| Special events | - | - | - | - | - | 62,926 | - | 62,926 | 62,926 |
| Bank and credit card fees | 15,443 | 93 | - | 23,472 | 39,008 | 83 | 5,047 | 5,130 | 44,138 |
| Small tools and equipment | 20,516 | - | - | 5,511 | 26,027 | - | - | - | 26,027 |
| Sponsor and volunteer appreciation | - | - | - | - | - | 21,828 | - | 21,828 | 21,828 |
| Deconstruction | - | - | - | 12,094 | 12,094 | - | - | - | 12,094 |
| NMTC amortization | - | - | - | - | - | - | 6,668 | 6,668 | 6,668 |
| Advertising | - | - | - | 4,656 | 4,656 | 528 | - | 528 | 5,184 |
| | $ 5,435,973 | $ 796,649 | $ 1,812,339 | $ 1,514,066 | $ 9,559,027 | $ 1,295,422 | $ 561,367 | $ 1,856,789 | $ 11,415,816 |

See accompanying notes.

## HABITAT FOR HUMANITY OF GREATER NASHVILLE
## STATEMENT OF FUNCTIONAL EXPENSES
## For the year ended June 30, 2012

| | Program Services | | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Construction | Family Support and Educational Ministries | Discounts on Mortgage Obligations | ReStore Operations | Total | Fund Raising | Management and General | Total | Total |
| Construction costs-new homes | $ 4,192,833 | $ - | $ - | $ - | $ 4,192,833 | $ - | $ - | $ - | $ 4,192,833 |
| Salaries and related expenses | 724,444 | 606,992 | - | 793,349 | 2,124,785 | 831,544 | 234,606 | 1,066,150 | 3,190,935 |
| Mortgage discounts | - | - | 2,219,286 | - | 2,219,286 | - | - | - | 2,219,286 |
| Construction costs-reconstruction | 511,064 | - | - | - | 511,064 | - | - | - | 511,064 |
| Lease expense | 84,117 | 46,452 | - | 265,603 | 396,172 | 38,081 | 11,902 | 49,983 | 446,155 |
| Other | 39,953 | 47,432 | - | 24,117 | 111,502 | 78,864 | 91,654 | 170,518 | 282,020 |
| Interest | 252,007 | - | - | 603 | 252,610 | - | - | - | 252,610 |
| Office expenses | 46,993 | 39,493 | - | 81,642 | 168,128 | 43,494 | 18,993 | 62,487 | 230,615 |
| Legal and professional | 42,243 | 31,474 | - | - | 73,717 | - | 52,716 | 52,716 | 126,433 |
| Repairs and maintenance | 115,287 | 9,256 | - | 9,221 | 133,764 | 2,068 | 1,234 | 3,302 | 137,066 |
| Depreciation | 48,486 | 26,809 | - | 19,538 | 94,833 | 14,693 | 4,151 | 18,844 | 113,677 |
| Vehicle expenses | 48,921 | 4,446 | - | 26,989 | 80,356 | 15,948 | 2,297 | 18,245 | 98,601 |
| Taxes and insurance | 55,019 | 10,411 | - | 19,695 | 85,125 | 7,123 | 2,192 | 9,315 | 94,440 |
| Printing and public relations | 133 | 254 | - | 643 | 1,030 | 92,324 | 34 | 92,358 | 93,388 |
| Special events | - | - | - | - | - | 68,593 | - | 68,593 | 68,593 |
| Tithe to Habitat for Humanity International, Inc. | 49,507 | - | - | - | 49,507 | - | - | - | 49,507 |
| Bank and credit card fees | 16,938 | 13 | - | 23,855 | 40,806 | 12 | 905 | 917 | 41,723 |
| Small tools and equipment | 33,070 | - | - | 3,510 | 36,580 | - | - | - | 36,580 |
| Sponsor and volunteer appreciation | - | - | - | - | - | 27,571 | - | 27,571 | 27,571 |
| Advertising | 328 | 161 | - | 209 | 698 | 9,711 | 276 | 9,987 | 10,685 |
| Deconstruction | - | - | - | 10,249 | 10,249 | - | - | - | 10,249 |
| | $ 6,261,343 | $ 823,193 | $ 2,219,286 | $ 1,279,223 | $ 10,583,045 | $ 1,230,026 | $ 420,960 | $ 1,650,986 | $ 12,234,031 |

See accompanying notes.

## NOTE 1 – ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Nashville ("Habitat"), a nonprofit corporation, was chartered by the State of Tennessee on March 25, 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

### Income Taxes

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

Habitat follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. 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, 2010 through June 30, 2013. Habitat has no uncertain tax positions at June 30, 2013 or 2012.

### 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

> **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, 2013 and 2012 consist of contributions received and receivable restricted for home construction, the purchase of land, 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, 2013 and 2012.

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.

**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 the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

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

**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 ten 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.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give in the amount of $814,268 and $420,499 at June 30, 2013 and 2012, 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.

### 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.

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

In-kind contributions (primarily construction materials and land for development) are recorded based on their estimated value on the date of receipt. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to Habitat's program services.

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. Certain of these mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of the non-payable second and third mortgage loans except in the event of sale, refinance or foreclosure of the home.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue Recognition (Continued)

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 9% 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.

A summary of home building activity for 2013 is as follows:

| | Number | Costs |
|---|---|---|
| New homes under construction, June 30, 2012 | 22 | $ 234,403 |
| Additional costs incurred on beginning inventory | | 1,306,843 |
| New homes started in 2013 | 32 | 2,726,162 |
| New homes closed in 2013 | (33) | (3,536,071) |
| New homes under construction, June 30, 2013 | 21 | $ 731,337 |

### Grant Income

Grant funds are earned and reported as revenue when Habitat has incurred expenses in compliance with the specific restrictions of the grant agreement.

Grant funds that are restricted for use in home construction are reflected as unrestricted revenue since these funds are generally received and spent during the same year.

### Program Services

Program services include construction, ReStore operations, 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 $107,154 and $107,509 for the years ended June 30, 2013 and 2012, respectively.

### Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled $5,184 and $10,685 for the years ended June 30, 2013 and 2012, respectively.

## NOTE 2 – SUMMARIZED OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Summarized Financial Information

The financial statements include certain 2011 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 Habitat's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

### Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

### Subsequent Events

Habitat evaluated subsequent events through September 13, 2013, 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 – GRANTS RECEIVABLE

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

| | 2013 | 2012 |
|---|---|---|
| Foundations and other | $ 251,529 | $ 340,500 |
| Federal Home Loan Bank | 206,250 | 304,973 |
| | $ 457,779 | $ 645,473 |

## NOTE 4 – CONTRIBUTIONS RECEIVABLE

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

| | 2013 | 2012 |
|---|---|---|
| Amount receivable within one year | $ 9,250 | $ 76,918 |
| Amount receivable in 1 to 5 years | - | 41,450 |
| | 9,250 | 118,368 |
| Less allowance for uncollectible contributions | - | (30,498) |
| Contributions receivable, net | $ 9,250 | $ 87,870 |

## NOTE 5 – PROPERTY AND EQUIPMENT

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

| | 2013 | 2012 |
|---|---|---|
| Buildings | $ 242,230 | $ - |
| Office equipment | 232,535 | 216,392 |
| Leasehold improvements | 221,978 | 221,978 |
| Vehicles and trailers | 280,310 | 242,190 |
| Other | 214,227 | 165,127 |
| | 1,191,280 | 845,687 |
| Less accumulated depreciation | (598,168) | (486,382) |
| | $ 593,112 | $ 359,305 |

## NOTE 6 – NEW MARKETS TAX CREDIT JOINT VENTURE INVESTMENT

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

The investment in joint venture is accounted for using the equity method and the carrying amount of the investment is increased for Habitat's proportionate share of the joint venture's earnings and decreased for Habitat's proportionate share of the joint venture's losses. The activity of the NMTC joint venture investment during the year ended June 30, 2013 is as follows:

| | |
|---|---|
| Beginning balance | $ - |
| Capital contributed | 1,430,134 |
| Distributions received | (9,534) |
| Share of 2012 income | 10,654 |
| Ending balance | $ 1,431,254 |

## NOTE 7 – NEW MARKETS TAX CREDIT INTANGIBLE ASSETS

Habitat incurred $44,136 in guarantor fees related to its NMTC financing in August 2012, to be amortized over 7 years, the period to which the guarantee applies. The guarantor fee represents fees paid to the third party administrator in the transaction, who is responsible for ensuring that Habitat performs and complies with all aspects of the transaction requirements. Habitat also incurred $27,151 in closing costs related to its NMTC note payable in August 2012, to be amortized over the 15-year loan term. As of June 30, 2013, the balances of NMTC intangible assets and accumulated amortization are as follows.

| | |
|---|---|
| Qualified active low income community business ("QALICB") guarantor fee | $ 44,136 |
| NMTC closing costs | 27,151 |
| | 71,287 |
| Accumulated NMTC amortization | (6,668) |
| NMTC intangible assets, net | $ 64,619 |

## NOTE 8 – NOTES PAYABLE

| | 2013 | 2012 |
|---|---|---|
| Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of $60,838 through July 2043, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of $9,905,116. The notes payable have an undiscounted balance outstanding of $18,200,868 and $15,346,511 at June 30, 2013 and 2012, respectively. Discount rates ranging from 4.5% to 5.25% were applied to arrive at net present value of the notes payable at issuance. Contribution revenue of $1,419,710 and $1,303,885 has been recognized in 2013 and 2012, 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, 2013 and 2012 amounted to $8,295,752 and $7,033,904, respectively. | $ 9,905,116 | $ 8,312,607 |
| Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (0% at June 30, 2013), secured by certain real property held for development, maturing August 2015. | 1,773,400 | 1,968,000 |

## NOTE 8 – NOTES PAYABLE (Continued)

| | 2013 | 2012 |
|---|---|---|
| Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from $211 to $3,125 through June 2019. | 655,774 | 614,848 |
| Notes payable to bank secured by mortgages receivable, bearing interest at 4.15%, payable in monthly installments totaling $1,134, maturing July 2042. | 228,924 | 233,217 |
| 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, 2012) until September 2012, at which time the entire principal balance was paid in full. | - | 232,597 |
| Note payable to Tennessee Housing Development Agency, bearing interest at 4%, payable in annual principal installments of $20,000 plus interest, maturing August 2021. | 180,000 | 200,000 |
| Note payable to bank, unsecured, non-interest bearing, maturing October 2013. | 100,000 | 100,000 |
| Note payable to bank secured by equipment, bearing interest at 4.5%, payable in monthly installments of $696, maturing February 2016. | 20,935 | 28,147 |
| Note payable to bank secured by equipment, bearing interest at 4.75%, payable in monthly installments of $522, maturing November 2015. | 14,263 | 19,699 |
| Note payable to an individual, unsecured, non-interest bearing, payable in monthly installments of $1,875, matured December 2012. | - | 11,250 |
| 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. | 3,995 | 8,031 |
| Note payable to finance company secured by equipment, non-interest bearing, payable in monthly installments of $385, matured May 2013. | - | 4,233 |

**NOTE 8 – NOTES PAYABLE (Continued)**

| | 2013 | 2012 |
|---|---|---|
| Note payable to bank, secured by certain real property, bearing interest at 5.75%, payable in monthly installments of $1,570, maturing April 2026. | 169,921 | - |
| Note payable to The Housing Fund, Inc. secured by certain real property, bearing interest at 3%, payable in 120 equal monthly principal installments, maturing December 2025. | 88,150 | - |
| | $ 13,140,478 | $ 11,732,629 |

Future principal maturities of notes payable are as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2014 | $ 944,656 |
| 2015 | 960,221 |
| 2016 | 2,718,284 |
| 2017 | 918,662 |
| 2018 | 890,867 |
| Thereafter | 15,003,540 |
| Total principal maturities | 21,436,230 |
| Amounts representing imputed interest | (8,295,752) |
| | $ 13,140,478 |

**NOTE 9 – NEW MARKETS TAX CREDIT JOINT VENTURE – NOTE PAYABLE**

Habitat has a loan payable to CCM Community Development XXVII, LLC ("CCM"), a community development entity, dated August 31, 2012 as part of the NMTC transaction. It is a 15-year loan bearing interest at 0.76% interest with semi-annual interest-only payments for 7 years commencing on November 10, 2012 until November 10, 2020. Principal and interest payments are to commence on November 10, 2020 due semi-annually to then fully amortize the principal balance over an 8-year period. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the joint venture's related parties that is expected to be exercised in 2020 that will effectively extinguish the liability to Habitat. The balance of the note payable at June 30, 2013 is $1,880,000.

As a component of the NMTC transaction, Habitat received a loan in the amount of $1,880,000 payable to CCM. Simultaneous with these transactions, the LLC entered into an option agreement (the "Agreement") with U.S. Bancorp Community Development Corporation ("USBCDC"), the federal tax credit investor, who is the sole-member of CCM CD 27 Investment Fund, LLC (the "Fund"), and the upstream effective owner of CCM. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund for $1,000, during the six month

## NOTE 9 – NEW MARKETS TAX CREDIT JOINT VENTURE – NOTE PAYABLE (Continued)

put period beginning September 15, 2019. Exercise of this option will effectively extinguish Habitat's outstanding debt owed to the Fund. Habitat will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off Habitat's books. All entities including CCML Leverage II, LLC, will then be dissolved effectively ending the structured financing deal.

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

## NOTE 10 – LINE OF CREDIT

Habitat has a $950,000 unsecured line of credit agreement with a bank bearing interest at the prime rate plus 1.30% (4.55% at June 30, 2013). The line of credit has a maturity date of December 2014. Management intends to renew the line of credit agreement with its bank. At June 30, 2013, no borrowings were outstanding under the line of credit agreement.

## NOTE 11 – 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:

| | 2013 | 2012 |
|---|---|---|
| THDA unamortized discount | $ 8,295,752 | $ 7,033,904 |
| Donor restricted contribution | 429,175 | 527,305 |
| Grants receivable – time restricted | 200,000 | 200,000 |
| Contributions receivable, net | 28,979 | 50,370 |
| | $ 8,953,906 | $ 7,811,579 |

## NOTE 12 – CONCENTRATIONS

Habitat maintains its cash in bank accounts that at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2013 and 2012 totaled $180,670 and $4,829, respectively.

## NOTE 13 – 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 for the years ended June 30:

| | 2013 | 2012 |
|---|---|---|
| Building supplies and home appliances | $ 410,852 | $ 572,680 |
| Real property | - | 67,000 |
| In-kind rent | - | 29,167 |
| | $ 410,852 | $ 668,847 |

During the years ended June 30, 2013 and 2012, approximately 8,000 and 5,000 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 accounting principles generally accepted in the United States of America.

## NOTE 14 – 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, 2013 and 2012, Habitat contributed $82,986 and $49,507, respectively, to Habitat International.

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Park Preserve and Edison Park subdivisions, Habitat has obtained letters of credit totaling $1,362,000 and $1,082,000 at June 30, 2013 and 2012 respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2013 and 2012. The letters of credit expire September 2013 through August 2014.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to $438,326 and $446,155 for the years ended June 30, 2013 and 2012, respectively.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**
**NOTES TO FINANCIAL STATEMENTS (Continued)**
**June 30, 2013 and 2012**

## NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

A summary of future minimum rental payments as of June 30, 2013 is as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2014 | $ 417,348 |
| 2015 | 401,659 |
| 2016 | 382,329 |
| 2017 | 148,929 |
| 2018 | - |
| | $ 1,350,265 |

## NOTE 16 – 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 17 – SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information required by accounting principles generally accepted in the United States of America.

**Supplemental Cash Flow Information**

| | **2013** | **2012** |
|---|---|---|
| Interest paid | $ 28,960 | $ 32,655 |

**Supplemental Schedule of Non-Cash Investing and Financing Activities**

| | | |
|---|---|---|
| Issuance of non-interest bearing mortgage loans | $ 4,031,608 | $ 4,916,459 |
| Discount on non-interest bearing mortgage loans | (1,812,339) | (2,219,286) |
| Transfers to homeowners subject to non-interest bearing mortgage loans | $ 2,219,269 | $ 2,697,173 |
| Loans transferred to real estate held for sale | $ 253,707 | $ 139,895 |
| Purchase of equipment through issuance of notes payable | $ - | $ 75,750 |

## NOTE 17 – SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

Effective July 1, 2012, Habitat and Wilson County Habitat for Humanity, Inc. ("Wilson County") merged their operations with Habitat being the surviving entity. Net assets were contributed by Wilson County to Habitat as follows:

| | |
|---|---|
| Assets transferred from Wilson County: | |
| Cash and cash equivalents | $ 338,194 |
| Accounts receivable | 29,232 |
| Real estate held for sale | 10,000 |
| Property and equipment | 241,894 |
| Non-interest bearing mortgages, net | 1,558,611 |
| Other assets | 44,464 |
| | 2,222,395 |
| Liabilities assumed from Wilson County: | |
| Accounts payable | 8,769 |
| Accrued expenses | 11,566 |
| Escrow accounts | 104,323 |
| Unearned revenue on mortgage loans | 517,645 |
| Notes payable | 443,803 |
| | 1,086,106 |
| Net assets contributed by Wilson County to Habitat: | |
| Unrestricted | 988,045 |
| Temporarily restricted | 148,244 |
| | $ 1,136,289 |

## NOTE 18 – 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.

## NOTE 19 – RELATED PARTIES

At June 30, 2013 and 2012, Habitat owed notes payable totaling $2,043,321 and $2,300,598, respectively, to a financial institution which has two officers that serve on Habitat's board of directors.

Habitat receives voluntary contributions, house sponsorship funding, gift-in-kind donations, and volunteer labor from various board members and their companies throughout the year. Some professional services are also purchased from board members and their companies throughout the course of the year. None of these transactions are considered to be individually significant to Habitat's financial statements.