

**HABITAT FOR HUMANITY OF GREATER
NASHVILLE (FORMERLY NASHVILLE AREA
HABITAT FOR HUMANITY, INC.)**

FINANCIAL STATEMENTS

June 30, 2012 and 2011

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)**

TABLE OF CONTENTS

Independent Auditor's Report.....	2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Cash Flows.....	6
Statements of Functional Expenses	7 – 8
Notes to Financial Statements.....	9 – 20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Greater Nashville
(formerly Nashville Area Habitat for Humanity, Inc.)
Nashville, Tennessee

We have audited the accompanying statements of financial position of Habitat for Humanity of Greater Nashville (formerly Nashville Area Habitat for Humanity, Inc.) as of June 30, 2012 and 2011, 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 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 Habitat for Humanity of Greater Nashville (formerly Nashville Area Habitat for Humanity, Inc.) as of June 30, 2012 and 2011, 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, 2012
Nashville, Tennessee

HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Cash and cash equivalents, including escrow accounts of \$299,780 and \$300,857, respectively	\$ 1,829,051	\$ 1,565,309
Grants receivable	645,473	537,654
Sponsor and other receivables	246,535	211,865
Contributions receivable, net	87,870	101,958
Real estate held for sale	233,409	156,822
Construction-in-progress	234,403	113,890
Property and equipment, net	359,305	239,174
Land held for development	3,905,227	4,101,286
Non-interest bearing mortgage loans, net of discounts of \$15,811,151 and \$14,356,624, respectively	20,043,622	17,800,430
Other assets	874,309	745,667
Total assets	<u>\$ 28,459,204</u>	<u>\$ 25,574,055</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 446,104	\$ 237,221
Escrow accounts	331,600	345,592
Notes payable	11,732,629	10,441,974
Deferred revenue	420,499	430,543
Unearned revenue on mortgage loans	4,757,839	4,516,491
Total liabilities	<u>17,688,671</u>	<u>15,971,821</u>
Net assets:		
Unrestricted	2,958,954	2,939,005
Temporarily restricted	7,811,579	6,663,229
Total net assets	<u>10,770,533</u>	<u>9,602,234</u>
Total liabilities and net assets	<u>\$ 28,459,204</u>	<u>\$ 25,574,055</u>

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENT OF ACTIVITIES
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
Grant income	1,813,133	-	1,813,133	890,728
HomeStore sales	1,533,163	-	1,533,163	1,340,753
THDA interest contribution	-	1,303,885	1,303,885	1,366,052
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
	<u>11,442,940</u>	<u>1,959,390</u>	<u>13,402,330</u>	<u>15,404,843</u>
Net assets released from restrictions	811,040	(811,040)	-	-
Total support and revenue	<u>12,253,980</u>	<u>1,148,350</u>	<u>13,402,330</u>	<u>15,404,843</u>
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	<u>12,234,031</u>	<u>-</u>	<u>12,234,031</u>	<u>14,819,429</u>
Change in net assets	19,949	1,148,350	1,168,299	585,414
Net assets at beginning of year	<u>2,939,005</u>	<u>6,663,229</u>	<u>9,602,234</u>	<u>9,016,820</u>
Net assets at end of year	<u>\$ 2,958,954</u>	<u>\$ 7,811,579</u>	<u>\$ 10,770,533</u>	<u>\$ 9,602,234</u>

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENT OF ACTIVITIES
Year ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)**

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$ 6,673,224	\$ -	\$ 6,673,224	\$ 4,710,750
Cash contributions	3,556,794	122,500	3,679,294	2,471,406
THDA interest contribution	-	1,366,052	1,366,052	1,121,282
HomeStore sales	1,340,753	-	1,340,753	1,245,811
Grant income	890,728	-	890,728	1,691,384
In-kind contributions	590,604	-	590,604	549,093
Mortgage loan discount amortization	476,598	-	476,598	417,001
Other income	384,095	-	384,095	165,011
Interest income	3,495	-	3,495	2,198
	13,916,291	1,488,552	15,404,843	12,373,936
Net assets released from restrictions	500,832	(500,832)	-	-
Total support and revenue	14,417,123	987,720	15,404,843	12,373,936
Expenses:				
Program services	13,053,606	-	13,053,606	9,910,009
Supporting services	1,765,823	-	1,765,823	1,606,990
Total expenses	14,819,429	-	14,819,429	11,516,999
Change in net assets	(402,306)	987,720	585,414	856,937
Net assets at beginning of year	3,341,311	5,675,509	9,016,820	8,159,883
Net assets at end of year	\$ 2,939,005	\$ 6,663,229	\$ 9,602,234	\$ 9,016,820

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,168,299	\$ 585,414
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash construction costs	470,680	557,958
THDA interest contribution	(1,303,885)	(1,366,052)
Contribution of real estate	(67,000)	(63,000)
Transfers to homeowners	(2,697,173)	(3,626,636)
Depreciation	113,677	90,225
Bad debt expense	10,034	25,740
Loss (gain) on disposal of fixed assets	20,827	(21,532)
Gain on sale of mortgages	-	(244,148)
Mortgage loan discount amortization	(480,573)	(476,598)
Amortization of discount on notes payable	244,055	197,805
Changes in operating assets and liabilities:		
Grants receivable	(107,819)	946,099
Sponsor and other receivables	(30,616)	(164,342)
Construction-in-progress	(88,513)	1,176,846
Land held for development	196,059	468,602
Other assets	(128,642)	(130,041)
Accounts payable and accrued expenses	208,883	(318,600)
Escrow accounts	(13,992)	37,783
Deferred revenue	(10,044)	(920,253)
Net cash used in operating activities	<u>(2,495,743)</u>	<u>(3,244,730)</u>
Cash flows from investing activities:		
Improvements to real estate held for sale	(372,372)	(394,285)
Purchases of property and equipment	(179,060)	(131,612)
Proceeds from sale of mortgages	-	792,964
Proceeds from disposal of fixed assets	175	27,348
Mortgage payments received	1,036,007	1,118,420
Net cash provided by investing activities	<u>484,750</u>	<u>1,412,835</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	3,795,811	3,667,629
Repayments on notes payable	(1,521,076)	(1,695,824)
Net cash provided by financing activities	<u>2,274,735</u>	<u>1,971,805</u>
Net increase in cash and cash equivalents	263,742	139,910
Cash and cash equivalents at beginning of year	<u>1,565,309</u>	<u>1,425,399</u>
Cash and cash equivalents at end of year	<u>\$ 1,829,051</u>	<u>\$ 1,565,309</u>

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2012**

	Program Services				Supporting Services			
	Construction	Family Support and Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	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	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	446,155
Other	39,999	47,445	-	24,117	111,561	78,876	91,654	282,091
Interest	252,007	-	-	603	252,610	-	-	252,610
Office expenses	46,974	39,493	-	81,642	168,109	43,494	18,993	230,596
Repairs and maintenance	115,287	9,256	-	9,221	133,764	2,068	1,234	137,066
Legal and professional	42,243	31,474	-	-	73,717	-	52,716	126,433
Depreciation	48,486	26,809	-	19,538	94,833	14,693	4,151	113,677
Printing and public relations	133	254	-	643	1,030	104,116	34	105,180
Vehicle expenses	48,921	4,446	-	26,989	80,356	15,948	2,297	98,601
Taxes and insurance	55,019	10,411	-	19,695	85,125	7,123	2,192	94,440
Special events	-	-	-	-	-	56,801	-	56,801
Tithe to Habitat for Humanity International, Inc.	49,507	-	-	-	49,507	-	-	49,507
Bank and credit card fees	16,911	-	-	23,855	40,766	-	905	41,671
Small tools and equipment	33,070	-	-	3,510	36,580	-	-	36,580
Sponsor and volunteer appreciation	-	-	-	-	-	27,571	-	27,571
Advertising	328	161	-	209	698	9,711	276	10,685
Deconstruction	-	-	-	10,249	10,249	-	-	10,249
Total	\$ 6,261,343	\$ 823,193	\$ 2,219,286	\$ 1,279,223	\$ 10,583,045	\$ 1,230,026	\$ 420,960	\$ 12,234,031

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2011**

	Program Services				Supporting Services			Total
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	
Construction costs-new homes	\$ 5,434,861	\$ -	\$ -	\$ -	\$ 5,434,861	\$ -	\$ -	\$ 5,434,861
Mortgage discounts	-	-	2,980,658	-	2,980,658	-	-	2,980,658
Salaries and related expenses	874,564	564,481	-	679,142	2,118,187	641,023	217,234	2,976,444
Construction costs-reconstruction	1,080,672	-	-	-	1,080,672	-	-	1,080,672
Lease expense	63,548	27,608	-	317,069	408,225	33,972	33,872	476,069
Printing and public relations	838	1,653	-	1,445	3,936	313,527	2,538	320,001
Legal and professional	48,147	104,218	-	755	153,120	615	145,431	299,166
Office expenses	48,067	33,640	-	75,628	157,335	42,925	27,027	227,287
Other	19,512	50,512	-	24,476	94,500	62,484	67,612	224,596
Interest	197,252	-	-	-	197,252	-	7,039	204,291
Taxes and insurance	60,249	10,770	-	12,924	83,943	10,770	2,937	97,650
Depreciation	38,286	31,249	-	9,057	78,592	8,837	2,796	90,225
Vehicle expenses	46,370	3,190	-	21,665	71,225	14,370	1,371	86,966
Sponsor and volunteer appreciation	-	-	-	-	-	73,219	-	73,219
Bank and credit card fees	26,398	-	-	31,941	58,339	-	1,352	59,691
Small tools and equipment	45,309	-	-	1,579	46,888	-	-	46,888
Repairs and maintenance	16,752	8,473	-	13,070	38,295	4,656	1,646	44,597
Special events	-	-	-	-	-	35,668	-	35,668
Tithe to Habitat for Humanity International, Inc.	26,210	-	-	-	26,210	-	-	26,210
Advertising	749	7,301	-	1,055	9,105	12,902	-	22,007
Deconstruction	-	-	-	12,263	12,263	-	-	12,263
Total	\$ 8,027,784	\$ 843,095	\$ 2,980,658	\$ 1,202,069	\$ 13,053,606	\$ 1,254,968	\$ 510,855	\$ 14,819,429

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Nashville (“Habitat”) (formerly Nashville Area Habitat for Humanity, Inc.), 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, 2009 through June 30, 2012. Habitat had no uncertain tax positions at June 30, 2012 or 2011.

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.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

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, 2012 and 2011 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, 2012 and 2011.

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.

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. Historically, sales returns have not been significant.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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. 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 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 2012 is as follows:

	<u>Number</u>	<u>Costs</u>
New homes under construction, June 30, 2011	13	\$ 113,890
Additional costs incurred on beginning inventory		1,277,716
New homes started in 2012	48	3,035,630
New homes closed in 2012	<u>(39)</u>	<u>(4,192,833)</u>
 New homes under construction, June 30, 2012	 <u>22</u>	 <u>\$ 234,403</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.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

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 \$107,509 and \$108,697 for the years ended June 30, 2012 and 2011, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$10,685 and \$22,007 for the years ended June 30, 2012 and 2011, respectively.

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.

Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give in the amount of \$420,499 and \$430,543 at June 30, 2012 and 2011, 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.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Financial Information

The financial statements include certain 2010 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, 2010, from which the summarized information was derived.

Subsequent Events

Habitat evaluated subsequent events through September 13, 2012, when these financial statements were available to be issued. Except for the events noted at Notes 17 and 18, 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:

	<u>2012</u>	<u>2011</u>
Foundations and other	\$ 340,500	\$ 375,196
Federal Home Loan Bank	<u>304,973</u>	<u>162,458</u>
	<u>\$ 645,473</u>	<u>\$ 537,654</u>

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:

	<u>2012</u>	<u>2011</u>
Amount receivable within one year	\$ 76,918	\$ 58,926
Amount receivable in 1 to 5 years	<u>41,450</u>	<u>76,200</u>
	118,368	135,126
Less allowance for uncollectible contributions	<u>(30,498)</u>	<u>(33,168)</u>
Contributions receivable, net	<u>\$ 87,870</u>	<u>\$ 101,958</u>

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 216,392	\$ 189,641
Leasehold improvements	221,978	263,209
Vehicles and trailers	242,190	183,280
Other	<u>165,127</u>	<u>145,450</u>
	845,687	781,580
Less accumulated depreciation	<u>(486,382)</u>	<u>(542,406)</u>
	<u>\$ 359,305</u>	<u>\$ 239,174</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, 2012 and 2011, Habitat contributed \$49,507 and \$26,210, respectively, to Habitat International.

NOTE 7 – LINE OF CREDIT

Habitat has a \$950,000 unsecured line of credit agreement with a bank bearing interest at the prime rate plus 1.50% (4.75% at June 30, 2012). The line of credit has a maturity date of December 2012. Management intends to renew the line of credit agreement with its bank. At June 30, 2012 and 2011, no borrowings were outstanding under the line of credit agreement.

NOTE 8 – NOTES PAYABLE

Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of \$50,658 through July 2042, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$8,312,607. The notes payable have an undiscounted balance outstanding of \$15,346,511 and \$12,994,589 at June 30, 2012 and 2011, respectively. Discount rates ranging from 4.5% to 5.25% were applied to arrive at net present value of the notes payable at issuance.

<u>2012</u>	<u>2011</u>
-------------	-------------

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 8 – NOTES PAYABLE (Continued)

	<u>2012</u>	<u>2011</u>
Contribution revenue of \$1,303,885 and \$1,366,052 has been recognized in 2012 and 2011, 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, 2012 and 2011 amounted to \$7,033,904 and \$5,974,075, respectively.	\$ 8,312,607	\$ 7,020,514
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (0% at June 30, 2012), secured by certain real property held for development, maturing July 2013.	1,968,000	2,066,600
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$211 to \$2,757 through July 2018.	614,848	308,842
Notes payable to bank secured by mortgages receivable, bearing interest at 4.15%, payable in monthly installments totaling \$1,134, maturing July 2042.	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 is due in full.	232,597	506,099
Note payable to Tennessee Housing Development Agency, bearing interest at 4%, payable in annual principal installments of \$20,000 plus interest, maturing August 2021.	200,000	-
Note payable to bank, unsecured, non-interest bearing, maturing October 2013.	100,000	-
Note payable to bank secured by equipment, bearing interest at 4.5%, payable in monthly installments of \$696, maturing February 2016.	28,147	-

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 8 – NOTES PAYABLE (Continued)

	<u>2012</u>	<u>2011</u>
Note payable to bank secured by equipment, bearing interest at 4.75%, payable in monthly installments of \$522, maturing November 2015.	19,699	-
Note payable to an individual, unsecured, non-interest bearing, payable in monthly installments of \$1,875, maturing 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.	8,031	12,068
Note payable to finance company secured by equipment, non-interest bearing, payable in monthly installments of \$385, maturing May 2013.	4,233	8,851
Note payable to The Housing Fund bearing interest at 4.25%, secured by certain real property held for development, maturing December 2012.	-	406,500
Note payable to bank, unsecured, non-interest bearing, matured September 2011.	-	100,000
Note payable to an individual, unsecured, non-interest bearing, payable in monthly installments of \$2,500, matured November 2011.	-	12,500
	<u>\$ 11,732,629</u>	<u>\$ 10,441,974</u>

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2013	\$ 959,171
2014	2,776,913
2015	793,079
2016	777,184
2017	750,322
Thereafter	<u>12,709,864</u>
Total principal maturities	18,766,533
Amounts representing imputed interest	<u>(7,033,904)</u>
	<u>\$ 11,732,629</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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:

	<u>2012</u>	<u>2011</u>
THDA unamortized discount	\$ 7,033,904	\$ 5,974,075
Donor restricted contribution	527,305	279,500
Grants receivable – time restricted	200,000	345,196
Contributions receivable, net	<u>50,370</u>	<u>64,458</u>
	<u>\$ 7,811,579</u>	<u>\$ 6,663,229</u>

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 its cash balances. Uninsured balances at June 30, 2012 and 2011 totaled \$4,829 and \$255,295, respectively.

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>2012</u>	<u>2011</u>
Building supplies and home appliances	\$ 572,680	\$ 422,604
Real property	67,000	63,000
In-kind rent	<u>29,167</u>	<u>105,000</u>
	<u>\$ 668,847</u>	<u>\$ 590,604</u>

During the years ended June 30, 2012 and 2011, approximately 3,000 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.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Park Preserve and Edison Park subdivisions, Habitat has obtained letters of credit totaling \$1,082,000 and \$2,087,000 at June 30, 2012 and 2011, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2012 and 2011. The letters of credit expire April 2013 and December 2013.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$446,155 and \$476,069 for the years ended June 30, 2012 and 2011, respectively.

A summary of future minimum rental payments as of June 30, 2012 is as follows:

Year ending June 30,	
2013	\$ 428,637
2014	417,348
2015	401,659
2016	382,329
2017	<u>148,929</u>
	<u>\$ 1,778,902</u>

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 generally accepted accounting principles.

Supplemental Cash Flow Information

	<u>2012</u>	<u>2011</u>
Interest paid	<u>\$ 32,655</u>	<u>\$ 62,396</u>

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$ 4,916,459	\$ 6,607,294
Discount on non-interest bearing mortgage loans	<u>(2,219,286)</u>	<u>(2,980,658)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 2,697,173</u>	<u>\$ 3,626,636</u>
Loans transferred to real estate held for sale	<u>\$ 139,895</u>	<u>\$ 118,114</u>
Purchase of equipment through issuance of notes payable	<u>\$ 75,750</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.

NOTE 16 – RELATED PARTIES

At June 30, 2012 and 2011, Habitat owed notes payable totaling \$2,300,598 and \$2,672,698, 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 underlying financial statements.

NOTE 17 – SUBSEQUENT EVENT – WILSON COUNTY MERGER (UNAUDITED)

Effective July 1, 2012, Habitat and Wilson County Habitat for Humanity ("Wilson County") merged their operations with Habitat being the surviving entity. The underlying purpose of the merger with Wilson County is to serve more families by streamlining general support services, thereby creating operating efficiencies. Through the standardization of support services, Wilson County staff will be able to devote more time to mission-critical functions in their community such as fundraising, volunteer management and family recruitment. Net assets were contributed by Wilson County to Habitat as follows:

**HABITAT FOR HUMANITY OF GREATER NASHVILLE
(FORMERLY NASHVILLE AREA HABITAT FOR HUMANITY, INC.)
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011**

**NOTE 17 – SUBSEQUENT EVENT – WILSON COUNTY MERGER (UNAUDITED)
(Continued)**

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	1,040,966
Other assets	<u>5,313</u>
	<u>1,665,599</u>

Liabilities assumed from Wilson County:

Accounts payable	8,769
Accrued expenses	11,566
Escrow accounts	104,323
Notes payable	<u>443,803</u>
	<u>568,461</u>

Net assets contributed by Wilson County to Habitat:

Unrestricted	948,894
Temporarily restricted	<u>148,244</u>
	<u>\$ 1,097,138</u>

NOTE 18 – SUBSEQUENT EVENT – INVESTMENT IN LEVERAGE LENDER

On August 31, 2012, Habitat, along with five other Habitat for Humanity affiliates, invested in CCML Leverage II, LLC (the “Leverage Lender”) for the sole purpose of taking advantage of the New Markets Tax Credit (“NMTC”) program. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. Habitat’s investment in the Leverage Lender totaled \$1,430,134 and represents a 16.67% ownership stake. The investment was comprised of cash in the amount of \$1,200,729 and construction in progress of \$229,405. As part of the arrangement, Habitat secured a 15 year loan from CCM Community Development XXVII, LLC, a community development entity which received tax credit allocation. The loan is in the amount of \$1,880,000. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. The loan will bear interest at a rate of .7608% per year. Semi-annual payments of interest only are due in years 1 through 7 with fully amortizing semi-annual payments of principal and interest due in years 8 through 15.

In connection with this arrangement, the members of the Leverage Lender have the option to buy back Habitat’s ownership interest. Exercise of this option will effectively allow Habitat to extinguish its debt owed to the community development entity.