

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

FINANCIAL STATEMENTS

June 30, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007, 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 16, 2008
Nashville, Tennessee

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Cash, including escrow accounts of \$273,783 and \$199,369, respectively	\$ 592,420	\$ 623,647
Grants receivable	605,331	251,000
Sponsor and other receivables	380,561	612,391
Contributions receivable, net	556,984	225,974
Investments	1,054	-
Real estate held for sale	165,259	59,185
Construction-in-progress	1,035,522	659,886
Property and equipment, net	347,994	320,920
Land held for development	5,621,196	2,077,325
Non-interest bearing mortgage loans, net of discounts of \$10,162,739 and \$8,036,988, respectively	11,576,580	9,420,324
Other	585,644	655,583
Total assets	<u><u>\$ 21,468,545</u></u>	<u><u>\$ 14,906,235</u></u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 629,966	\$ 584,952
Escrow accounts	273,783	199,369
Notes payable	8,112,012	4,508,631
Deferred revenue	571,642	809,825
Unearned revenue on second mortgage loans	3,540,863	2,951,274
Total liabilities	<u>13,128,266</u>	<u>9,054,051</u>
Net assets:		
Unrestricted	4,159,746	3,107,131
Temporarily restricted	4,180,533	2,745,053
Total net assets	<u>8,340,279</u>	<u>5,852,184</u>
Total liabilities and net assets	<u><u>\$ 21,468,545</u></u>	<u><u>\$ 14,906,235</u></u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$3,812,375	\$ -	\$3,812,375	\$3,506,583
Cash contributions	1,563,239	2,220,155	3,783,394	3,605,737
Grant income	2,543,044	188,692	2,731,736	1,273,536
HomeStore sales	1,190,206	-	1,190,206	989,820
THDA interest contribution	-	1,268,294	1,268,294	935,339
Mortgage loan discount amortization	345,622	-	345,622	389,272
In-kind contributions	166,656	-	166,656	262,257
Other income	106,492	-	106,492	173,713
Interest income	21,829	-	21,829	35,211
	<u>9,749,463</u>	<u>3,677,141</u>	<u>13,426,604</u>	<u>11,171,468</u>
Net assets released from restrictions	<u>2,241,661</u>	<u>(2,241,661)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>11,991,124</u>	<u>1,435,480</u>	<u>13,426,604</u>	<u>11,171,468</u>
Expenses:				
Program services	9,133,380	-	9,133,380	8,296,816
Supporting services	2,025,305	-	2,025,305	1,418,315
Total expenses	<u>11,158,685</u>	<u>-</u>	<u>11,158,685</u>	<u>9,715,131</u>
Change in net assets from operations	832,439	1,435,480	2,267,919	1,456,337
Contribution of net assets from Dickson County Habitat for Humanity	<u>220,176</u>	<u>-</u>	<u>220,176</u>	<u>-</u>
Change in net assets	1,052,615	1,435,480	2,488,095	1,456,337
Net assets at beginning of year	<u>3,107,131</u>	<u>2,745,053</u>	<u>5,852,184</u>	<u>4,395,847</u>
Net assets at end of year	<u>\$4,159,746</u>	<u>\$4,180,533</u>	<u>\$8,340,279</u>	<u>\$5,852,184</u>

See accompanying notes.

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

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Transfers to homeowners	\$3,506,583	\$ -	\$3,506,583	\$2,159,166
Cash contributions	2,762,653	843,084	3,605,737	1,615,124
Grant income	798,664	474,872	1,273,536	849,699
HomeStore sales	989,820	-	989,820	821,413
THDA interest contribution	-	935,339	935,339	552,107
Mortgage loan discount amortization	389,272	-	389,272	368,714
In-kind contributions	262,257	-	262,257	288,582
Other income	173,713	-	173,713	77,029
Interest income	35,211	-	35,211	8,452
	<u>8,918,173</u>	<u>2,253,295</u>	<u>11,171,468</u>	<u>6,740,286</u>
Net assets released from restrictions	<u>832,066</u>	<u>(832,066)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,750,239</u>	<u>1,421,229</u>	<u>11,171,468</u>	<u>6,740,286</u>
Expenses:				
Program services	8,296,816	-	8,296,816	5,496,311
Supporting services	1,418,315	-	1,418,315	1,048,418
Total expenses	<u>9,715,131</u>	<u>-</u>	<u>9,715,131</u>	<u>6,544,729</u>
Change in net assets	35,108	1,421,229	1,456,337	195,557
Net assets at beginning of year	<u>3,072,023</u>	<u>1,323,824</u>	<u>4,395,847</u>	<u>4,200,290</u>
Net assets at end of year	<u>\$3,107,131</u>	<u>\$2,745,053</u>	<u>\$5,852,184</u>	<u>\$4,395,847</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,488,095	\$ 1,456,337
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contribution of net assets from Dickson County	(220,176)	-
Non-cash construction costs	155,202	31,625
Contribution of property and equipment	-	(31,550)
Transfers to homeowners	(1,929,679)	(1,772,605)
Depreciation	101,254	84,638
Gain on sale of mortgages	-	(86,109)
Loss on disposal of fixed assets	754	-
Mortgage loan discount amortization	(318,184)	(317,193)
Changes in operating assets and liabilities:		
Grants receivable	(354,331)	(230,092)
Sponsor and other receivables	(99,180)	694
Construction-in-progress	(375,636)	53,493
Land held for development	(793,091)	196,657
Other assets	69,939	(382,791)
Accounts payable and accrued expenses	45,014	291,937
Escrow accounts	71,673	8,758
Deferred revenue	(238,183)	(334,485)
Net cash used in operating activities	<u>(1,396,529)</u>	<u>(1,030,686)</u>
Cash flows from investing activities:		
Cash received from Dickson County	11,737	-
Improvements to real estate held for sale	(43,600)	(11,847)
Purchases of property and equipment	(41,772)	(160,977)
Proceeds from sale of investments	-	10,000
Purchases of investments	(1,054)	-
Proceeds from sale of mortgages	-	244,451
Mortgage payments received	703,249	678,936
Net cash provided by investing activities	<u>628,560</u>	<u>760,563</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	2,943,237	1,084,685
Repayments on notes payable	(2,206,495)	(1,220,713)
Net cash provided by (used in) financing activities	<u>736,742</u>	<u>(136,028)</u>
Net decrease in cash and cash equivalents	(31,227)	(406,151)
Cash and cash equivalents at beginning of year	<u>623,647</u>	<u>1,029,798</u>
Cash and cash equivalents at end of year	<u>\$ 592,420</u>	<u>\$ 623,647</u>

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2008

	Program Services					Supporting Services			
	Family Support and Educational Ministries		Mortgage Discounts on Obligations		HomeStore Operations	Fund Raising		Management and General	Total
	Construction	-	-	-	-	-	-	-	
Construction costs	\$ 4,038,627	\$ -	\$ -	\$ -	\$ -	\$ 4,038,627	\$ -	\$ -	\$ 4,038,627
Salaries and related expenses	910,968	504,734	-	675,140	-	2,090,842	535,828	154,945	2,781,615
Mortgage discounts	-	-	1,882,696	-	-	1,882,696	-	-	1,882,696
Printing and public relations	5,351	1,156	-	1,874	8,381	8,381	528,798	1,484	538,663
Lease expense	82,721	20,317	-	176,293	279,331	279,331	25,132	47,239	351,702
Other	124,036	22,971	-	20,562	167,569	167,569	62,289	92,379	322,237
Office expenses	69,670	30,873	-	64,116	164,659	164,659	48,452	31,367	244,478
Interest	131,151	-	-	-	131,151	131,151	-	22,327	153,478
Legal and professional	26,227	43,612	-	392	70,231	70,231	22,042	47,143	139,416
Depreciation	-	-	-	-	-	-	-	101,254	101,254
Sponsor and volunteer appreciation	-	-	-	-	-	-	98,018	-	98,018
Special events	-	-	-	-	-	-	93,886	-	93,886
Tithe to Habitat for Humanity International, Inc.	87,996	-	-	-	-	87,996	-	-	87,996
Advertising	156	27	-	3,818	4,001	4,001	75,882	1,310	81,193
Auto	40,344	3,242	-	15,784	59,370	59,370	9,048	905	69,323
Repairs and maintenance	33,362	2,027	-	18,649	54,038	54,038	2,222	1,858	58,118
Small tools and equipment	37,140	-	-	926	38,066	38,066	-	-	38,066
Bank and credit card fees	1,755	-	-	28,299	30,054	30,054	-	6,338	36,392
Taxes and insurance	7,395	3,870	-	11,886	23,151	23,151	3,282	4,577	31,010
Donations	-	-	-	-	-	-	2,100	5,200	7,300
Deconstruction	-	-	-	3,217	3,217	3,217	-	-	3,217
	<u>\$ 5,596,899</u>	<u>\$ 632,829</u>	<u>\$ 1,882,696</u>	<u>\$ 1,020,956</u>	<u>\$ 9,133,380</u>	<u>\$ 1,506,979</u>	<u>\$ 518,326</u>	<u>\$ 2,025,305</u>	<u>\$ 11,158,685</u>

See accompanying notes.

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

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

See accompanying notes.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 – ORGANIZATION AND PURPOSE

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Habitat and/or the passage of time. Temporarily restricted net assets at June 30, 2008 and 2007 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, 2008 and 2007.

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.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions are recognized as revenue when received.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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

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

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

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

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

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

A summary of home building activity for 2008 is as follows:

	<u>Number</u>	<u>Costs</u>
Homes under construction, June 30, 2007	16	\$ 659,886
Additional costs incurred on beginning inventory		866,653
New homes started in 2008	46	3,547,610
Homes transferred in 2008	<u>(43)</u>	<u>(4,038,627)</u>
Homes under construction, June 30, 2008	<u>19</u>	<u>\$ 1,035,522</u>

Grant Revenues

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

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

Program Services

Program services include construction, HomeStore operations, family support and educational ministries and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of homes transferred, which have an average cost of \$93,922 and \$95,193 for the years ended June 30, 2008 and 2007, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$81,193 and \$25,141 for the years ended June 30, 2008 and 2007, respectively.

Property and Equipment

Property and equipment is reported at cost at the date of purchase or at fair market value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to five years.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land Held for Development

Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. During fiscal 2008, Habitat purchased more than two hundred acres of unimproved land for approximately \$2,800,000. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of building activities.

Income Taxes

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

Cash Equivalents

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

Investments

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

Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give in the amount of \$571,642 and \$809,825 at June 30, 2008 and 2007, 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 2006 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2006, from which the summarized information was derived.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to 2007 balances to conform to 2008 presentation.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Habitat has included unconditional promises to give as contributions receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are scheduled to be received as follows at June 30, 2008:

Amount receivable within one year	\$ 295,449
Amount receivable in 1 to 5 years	314,285
Amount receivable after 5 years	<u>10,000</u>
	619,734
Less allowance for uncollectible contributions	<u>(62,750)</u>
Contributions receivable, net	<u>\$ 556,984</u>

NOTE 4 – GRANTS RECEIVABLE

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

	<u>2008</u>	<u>2007</u>
Foundations and other	\$ 386,581	\$ 251,000
Metropolitan Development and Housing Agency	<u>218,750</u>	<u>-</u>
	<u>\$ 605,331</u>	<u>\$ 251,000</u>

NOTE 5 – INVESTMENTS

Investments consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Common stock	<u>\$ 1,054</u>	<u>\$ -</u>

Investment income is comprised entirely of dividends and interest income for the years ended June 30, 2008 and 2007.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 6 – PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Office equipment	\$ 189,786	\$ 231,212
Leasehold improvements	196,025	260,220
Vehicles and trailers	177,723	114,241
Other	<u>131,872</u>	<u>127,272</u>
	695,406	732,945
Less accumulated depreciation	<u>(347,412)</u>	<u>(412,025)</u>
	<u>\$ 347,994</u>	<u>\$ 320,920</u>

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

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2008 and 2007, Habitat contributed \$87,996 and \$67,481, respectively, to Habitat International.

NOTE 8 – 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 2008. At June 30, 2008, no borrowings were outstanding under the line of credit agreement.

NOTE 9 – NOTES PAYABLE

	<u>2008</u>	<u>2007</u>
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$100 to \$1,614 through June 2013.	\$ 289,936	\$ 177,856

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 9 – NOTES PAYABLE (Continued)

<p>Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of \$23,026 through June 2038, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$3,725,194. The notes payable have an undiscounted balance outstanding of \$6,993,744 and \$4,711,861 at June 30, 2008 and 2007, respectively. A discount rate of 5.2% was applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$1,268,294 and \$935,339 has been recognized in 2008 and 2007, 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, 2008 and 2007 amounted to \$3,268,549 and \$2,128,205, respectively.</p>	3,725,194	2,583,656
<p>Note payable to Nashville Housing Fund, Inc., bearing interest at 5%, secured by certain real property held for development, maturing June 2008.</p>	-	115,000
<p>Note payable to Nashville Housing Fund, Inc. The note is non-interest bearing, secured by certain real property and matures June 2008.</p>	-	35,000
<p>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.</p>	120,735	166,359
<p>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.</p>	208,113	262,896

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 9 – NOTES PAYABLE (Continued)

Note payable to finance company secured by equipment, payable in monthly installments of \$1,327, including interest at 0.76%, maturing September 2007.	-	3,975
Note payable to bank secured by certain real property held for development, interest payable monthly at 6.25%, was originally to mature April 2011. The note was instead paid off January 2008.	-	1,063,889
Note payable to bank, non-interest bearing, unsecured, maturing December 2007.	-	100,000
Notes payable to finance company secured by equipment, payable in monthly installments ranging from \$385 to \$492, including interest ranging from 0.00% 0.78%, maturing through May 2013.	81,359	-
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.	24,175	-
Note payable to bank bearing interest at 2.75%, secured by certain real property held for development, maturing July 2010.	1,462,500	-
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (1.0% at June 30, 2008), secured by certain real property held for development, maturing July 2015.	<u>2,200,000</u>	<u>-</u>
	<u>\$ 8,112,012</u>	<u>\$ 4,508,631</u>

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 9 – NOTES PAYABLE (Continued)

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2009	\$ 472,938
2010	484,117
2011	1,907,895
2012	380,002
2013	319,464
Thereafter	<u>7,816,145</u>
Total principal maturities	11,380,561
Amounts representing imputed interest	<u>(3,268,549)</u>
	<u>\$ 8,112,012</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
THDA unamortized discount	\$ 3,268,549	\$ 2,128,205
Donor restricted contribution	255,000	285,000
Mortgage reductions for people with disabilities	100,000	50,000
HomeWorks	-	55,875
Contributions receivable, net	<u>556,984</u>	<u>225,974</u>
	<u>\$ 4,180,533</u>	<u>\$ 2,745,053</u>

NOTE 11 – CONCENTRATIONS

Habitat maintains its cash in bank accounts that at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Management believes Habitat is not exposed to any significant credit risk on cash.

NOTE 12 – 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:

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 12 – IN-KIND CONTRIBUTIONS (Continued)

	2008	2007
Building supplies and home appliances	\$ 166,652	\$ 230,707
Property and equipment and other	-	31,550
	\$ 166,652	\$ 262,257

During each of the years ended June 30, 2008 and 2007, approximately 12,000 individuals contributed significant amounts of time to Habitat’s activities. The financial statements do not reflect the value of these services because they do not meet the recognition criteria of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Providence Park and Timberwood subdivisions, Habitat has obtained letters of credit totaling \$2,215,500 and \$769,500 at June 30, 2008 and 2007, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2008 and 2007. The letters of credit expire at various dates through May 2009.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$351,702 and \$302,562 in 2008 and 2007, respectively.

A summary of future minimum rental payments as of June 30, 2008 is as follows:

Year ending June 30,	
2009	\$ 315,257
2010	201,230
2011	103,302
2012	5,680
Thereafter	-
	\$ 625,469

NOTE 14 – 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.

NASHVILLE AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION

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

Supplemental Cash Flow Information

	<u>2008</u>	<u>2007</u>
Interest paid	\$ <u>198,832</u>	\$ <u>188,460</u>

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$ 3,812,375	\$ 3,504,083
Discount on non-interest bearing mortgage loans	<u>(1,882,696)</u>	<u>(1,731,478)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 1,929,679</u>	<u>\$ 1,772,605</u>
Loans transferred to real estate held for sale	<u>\$ 177,676</u>	<u>\$ 78,963</u>

Supplemental Schedule of Non-Cash Investing and Financing Activities (Continued)

Purchase of equipment through issuance of note payable	\$ <u>87,310</u>	\$ <u>-</u>
Purchase of land held for development through issuance of note payable	<u>\$ 2,750,780</u>	<u>\$ -</u>
Contribution of property and equipment	<u>\$ -</u>	<u>\$ 31,550</u>

Effective July 1, 2007, Habitat and Dickson County Habitat for Humanity (“Dickson County”) merged their operations with Habitat being the surviving entity. Net assets were contributed by Dickson County to Habitat as follows and are shown as non-cash investing and financing activities:

Assets transferred from Dickson County:		
Cash	\$ 11,737	
Non-interest bearing mortgages, net	376,942	
Real estate held for sale	<u>40,000</u>	
	<u>428,679</u>	
Liabilities assumed from Dickson County:		
Long-term debt	28,549	
Deferred revenue on second mortgages	177,213	
Escrow accounts	<u>2,741</u>	
	<u>208,503</u>	
Net assets contributed by Dickson County to Habitat	<u>\$ 220,176</u>	