

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

**FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

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



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550  
NASHVILLE, TENNESSEE 37203  
PHONE 615-383-6592, FAX 615-383-7094

**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, 2011 and 2010, 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, 2011 and 2010, 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.

As discussed in Note 16, during 2011 management reviewed the Organization's net asset classifications and determined that certain reclassifications were needed in order to properly reflect the certain time restrictions as of June 30, 2010 and 2009.

*Frasier, Dean & Howard, PLLC*

September 9, 2011  
Nashville, Tennessee

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents, including escrow accounts of \$345,592 and \$307,809, respectively	\$ 1,565,309	\$ 1,425,399
Grants receivable	537,654	1,483,753
Sponsor and other receivables	211,865	125,074
Contributions receivable, net	101,958	50,147
Real estate held for sale	156,822	153,381
Construction-in-progress	113,890	1,276,736
Property and equipment, net	239,174	203,603
Land held for development	4,101,286	4,569,888
Non-interest bearing mortgage loans, net of discounts of \$14,356,624 and \$12,622,104, respectively	17,800,430	15,349,781
Other assets	745,667	615,626
	<b>\$ 25,574,055</b>	<b>\$ 25,253,388</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 237,221	\$ 555,821
Escrow accounts	345,592	307,809
Notes payable	10,441,974	9,638,416
Deferred revenue	430,543	1,350,796
Unearned revenue on mortgage loans	4,516,491	4,383,726
	<b>15,971,821</b>	<b>16,236,568</b>
Net assets:		
Unrestricted	2,939,005	3,341,311
Temporarily restricted	6,663,229	5,675,509
	<b>9,602,234</b>	<b>9,016,820</b>
Total net assets	<b>\$ 25,574,055</b>	<b>\$ 25,253,388</b>
Total liabilities and net assets	<b>\$ 25,574,055</b>	<b>\$ 25,253,388</b>

See accompanying notes.

**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	<u>\$ 2,939,005</u>	<u>\$ 6,663,229</u>	<u>\$9,602,234</u>	<u>\$9,016,820</u>

See accompanying notes.

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

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$ 4,710,750	\$ -	\$4,710,750	\$ 3,232,850
Cash contributions	2,471,406	-	2,471,406	1,742,362
Grant income	1,291,384	400,000	1,691,384	1,538,331
HomeStore sales	1,245,811	-	1,245,811	1,303,155
THDA interest contribution	-	1,121,282	1,121,282	844,220
In-kind contributions	549,093	-	549,093	449,192
Mortgage loan discount amortization	417,001	-	417,001	235,106
Other income	165,011	-	165,011	77,742
Interest income	2,198	-	2,198	6,145
	10,852,654	1,521,282	12,373,936	9,429,103
Net assets released from restrictions	909,555	(909,555)	-	-
Total support and revenue	11,762,209	611,727	12,373,936	9,429,103
Expenses:				
Program services	9,910,009	-	9,910,009	7,883,080
Supporting services	1,606,990	-	1,606,990	1,726,419
Total expenses	11,516,999	-	11,516,999	9,609,499
Change in net assets	245,210	611,727	856,937	(180,396)
Net assets at beginning of year <i>(as reclassified)</i>	3,096,101	5,063,782	8,159,883	8,340,279
Net assets at end of year	<u>\$ 3,341,311</u>	<u>\$ 5,675,509</u>	<u>\$9,016,820</u>	<u>\$ 8,159,883</u>

See accompanying notes.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 585,414	\$ 856,937
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash construction costs	557,958	233,955
THDA interest contribution	(1,366,052)	(1,121,282)
Contribution of real estate	(63,000)	(107,000)
Transfers to homeowners	(3,626,636)	(2,578,735)
Depreciation	90,225	97,015
Bad debt expense	25,740	-
Gain on disposal of fixed assets	(21,532)	-
Gain on sale of mortgages	(244,148)	(85,276)
Mortgage loan discount amortization	(476,598)	(420,665)
Amortization of discount on notes payable	197,805	249,357
Changes in operating assets and liabilities:		
Grants receivable	946,099	(1,047,983)
Sponsor and other receivables	(164,342)	116,939
Construction-in-progress	1,176,846	204,740
Land held for development	468,602	394,906
Other assets	(130,041)	(22,395)
Accounts payable and accrued expenses	(318,600)	(191,463)
Escrow accounts	37,783	32,729
Deferred revenue	(920,253)	572,657
Net cash used in operating activities	<u>(3,244,730)</u>	<u>(2,815,564)</u>
Cash flows from investing activities:		
Improvements to real estate held for sale	(394,285)	(40,554)
Purchases of property and equipment	(131,612)	(22,881)
Proceeds from sale of mortgages	792,964	227,928
Proceeds from disposal of fixed assets	27,348	-
Mortgage payments received	1,118,420	868,136
Net cash provided by investing activities	<u>1,412,835</u>	<u>1,032,629</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	3,667,629	3,520,304
Repayments on notes payable	(1,695,824)	(1,746,613)
Net cash provided by financing activities	<u>1,971,805</u>	<u>1,773,691</u>
Net increase (decrease) in cash and cash equivalents	139,910	(9,244)
Cash and cash equivalents at beginning of year	<u>1,425,399</u>	<u>1,434,643</u>
Cash and cash equivalents at end of year	<u>\$ 1,565,309</u>	<u>\$ 1,425,399</u>

See accompanying notes.

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

	Program Services				Supporting Services				
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs-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	858,257	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	67,844	476,069
Printing and public relations	838	1,653	-	1,445	3,936	313,527	2,538	316,065	320,001
Legal and professional	48,147	104,218	-	755	153,120	615	145,431	146,046	299,166
Office expenses	48,067	33,640	-	75,628	157,335	42,925	27,027	69,952	227,287
Other	19,512	50,512	-	24,476	94,500	62,484	67,612	130,096	224,596
Interest	197,252	-	-	-	197,252	-	7,039	7,039	204,291
Taxes and insurance	60,249	10,770	-	12,924	83,943	10,770	2,937	13,707	97,650
Depreciation	38,286	31,249	-	9,057	78,592	8,837	2,796	11,633	90,225
Vehicle expenses	46,370	3,190	-	21,665	71,225	14,370	1,371	15,741	86,966
Sponsor and volunteer appreciation	-	-	-	-	-	73,219	-	73,219	73,219
Bank and credit card fees	26,398	-	-	31,941	58,339	-	1,352	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	6,302	44,597
Special events	-	-	-	-	-	35,668	-	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	-	12,902	22,007
Deconstruction	-	-	-	12,263	12,263	-	-	-	12,263
	<u>\$ 8,027,784</u>	<u>\$ 843,095</u>	<u>\$ 2,980,658</u>	<u>\$ 1,202,069</u>	<u>\$ 13,053,606</u>	<u>\$ 1,254,968</u>	<u>\$ 510,855</u>	<u>\$ 1,765,823</u>	<u>\$ 14,819,429</u>

See accompanying notes.



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

	Program Services				Supporting Services				
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	HomeStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs	\$ 4,487,306	\$ -	\$ -	\$ -	\$ 4,487,306	\$ -	\$ -	\$ -	\$ 4,487,306
Salaries and related expenses	876,197	469,230	-	567,331	1,912,758	501,941	176,572	678,513	2,591,271
Mortgage discounts	-	-	2,132,150	-	2,132,150	-	-	-	2,132,150
Lease expense	61,157	24,695	-	297,155	383,007	31,747	35,516	67,263	450,270
Other	102,335	50,008	-	19,927	172,270	39,587	104,950	144,537	316,807
Printing and public relations	1,206	5,153	-	2,128	8,487	289,752	3,631	293,383	301,870
Legal and professional	5,293	37,608	-	-	42,901	33,386	199,421	232,807	275,708
Interest	241,181	-	-	452	241,633	-	6,818	6,818	248,451
Office expenses	50,667	32,159	-	65,792	148,618	38,284	20,690	58,974	207,592
Depreciation	30,419	38,967	-	16,979	86,365	5,824	4,826	10,650	97,015
Taxes and insurance	66,547	6,645	-	11,141	84,333	6,645	5,264	11,909	96,242
Repairs and maintenance	39,078	3,174	-	17,519	59,771	3,007	3,263	6,270	66,041
Vehicle expenses	36,115	1,747	-	11,555	49,417	8,576	738	9,314	58,731
Bank and credit card fees	-	-	-	30,335	30,335	-	13,034	13,034	43,369
Small tools and equipment	40,070	-	-	54	40,124	-	-	-	40,124
Special events	-	-	-	-	-	35,382	-	35,382	35,382
Sponsor and volunteer appreciation	-	-	-	-	-	27,010	-	27,010	27,010
Advertising	-	9,674	-	2,601	12,275	11,096	30	11,126	23,401
Deconstruction	-	-	-	9,859	9,859	-	-	-	9,859
Tithe to Habitat for Humanity International, Inc.	8,400	-	-	-	8,400	-	-	-	8,400
	<u>\$ 6,045,971</u>	<u>\$ 679,060</u>	<u>\$ 2,132,150</u>	<u>\$ 1,052,828</u>	<u>\$ 9,910,009</u>	<u>\$ 1,032,237</u>	<u>\$ 574,753</u>	<u>\$ 1,606,990</u>	<u>\$ 11,516,999</u>

See accompanying notes.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**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.

**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.

Habitat has adopted Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance that clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. This guidance must be applied to all existing tax positions upon initial adoption. Habitat has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended June 30, 2008 through June 30, 2011. Habitat had no uncertain tax positions as of June 30, 2011 and 2010.

**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.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**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, 2011 and 2010 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, 2011 and 2010.

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

**Revenue Recognition**

Contributions are recognized as revenue when received.

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

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

HomeStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, 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.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

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

**Revenue Recognition (Continued)**

Unearned revenue on mortgage loans represents the discounted value of non-interest bearing second and third mortgage loans obtained on Habitat homes. The homeowner is required to sign one or more additional mortgages for the difference between the estimated fair market value of the home and the first mortgage balance as of the transfer date. These mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of second and third mortgage loans except in the event of sale, refinance or foreclosure of the home.

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 4.5% to 10% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages.

A summary of home building activity for 2011 is as follows:

	<b>Number</b>	<b>Costs</b>
New homes under construction, June 30, 2010	26	\$ 1,276,736
Additional costs incurred on beginning inventory		1,559,700
New homes started in 2011	37	2,712,315
New homes closed in 2011	(50)	(5,434,861)
 New homes under construction, June 30, 2011	 13	 \$ 113,890

**Grant Revenues**

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

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

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**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 \$108,697 and \$101,685 for the years ended June 30, 2011 and 2010, respectively.

**Advertising**

Advertising costs are charged to expense as incurred. Advertising expense totaled \$22,007 and \$23,401 for the years ended June 30, 2011 and 2010, 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 \$430,543 and \$1,350,796 at June 30, 2011 and 2010, 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 2009 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

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

**Summarized Financial Information (Continued)**

conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

**Reclassifications**

Certain reclassifications have been made to the 2010 balances to conform to the 2011 presentation.

**Subsequent Events**

Habitat evaluated subsequent events through September 9, 2011, when these financial statements were available to be issued. Habitat is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

**NOTE 3 – CONTRIBUTIONS RECEIVABLE**

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

	<u>2011</u>	<u>2010</u>
Amount receivable within one year	\$ 58,926	\$ 97,334
Amount receivable in 1 to 5 years	<u>76,200</u>	<u>43,600</u>
	135,126	140,934
Less allowance for uncollectible contributions	<u>(33,168)</u>	<u>(90,787)</u>
Contributions receivable, net	<u>\$ 101,958</u>	<u>\$ 50,147</u>

**NOTE 4 – GRANTS RECEIVABLE**

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

	<u>2011</u>	<u>2010</u>
Foundations and other	\$ 375,196	\$ 1,470,520
Federal Home Loan Bank	162,458	-
Metropolitan Development and Housing Agency	<u>-</u>	<u>13,233</u>
	<u>\$ 537,654</u>	<u>\$ 1,483,753</u>

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 5 – PROPERTY AND EQUIPMENT**

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

	<u>2011</u>	<u>2010</u>
Office equipment	\$ 189,641	\$ 203,935
Leasehold improvements	263,209	196,025
Vehicles and trailers	183,280	203,345
Other	<u>145,450</u>	<u>146,443</u>
	781,580	749,748
Less accumulated depreciation	<u>(542,406)</u>	<u>(546,145)</u>
	<u>\$ 239,174</u>	<u>\$ 203,603</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, 2011 and 2010, Habitat contributed \$26,210 and \$8,400, 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 bank's prime interest rate plus 1.5%. The line of credit has a maturity date of October 2011. Management intends to renew the line of credit agreement with its bank. At June 30, 2011 and 2010, no borrowings were outstanding under the line of credit agreement.

**NOTE 8 – NOTES PAYABLE**

	<u>2011</u>	<u>2010</u>
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$947 to \$1,328 through June 2017.	\$ 308,842	\$ 289,069
Notes payable to finance company secured by equipment, non-interest bearing, payable in monthly installments of \$385, maturing May 2013.	8,851	13,469
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.	12,068	16,104

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

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

	<b>2011</b>	<b>2010</b>
<p>Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments of \$42,641 through June 2040, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$7,020,514. The notes payable have an undiscounted balance outstanding of \$12,994,589 and \$10,414,527 at June 30, 2011 and 2010, 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 \$1,366,052 and \$1,121,282 has been recognized in 2011 and 2010, 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, 2011 and 2010 amounted to \$5,974,075 and \$4,805,828, respectively.</p>	7,020,514	5,608,699
<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. The note was paid in full during the year ended June 30, 2011.</p>	-	24,935
<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. The note was prepaid during the year ended June 30, 2011.</p>	-	92,466
<p>Note payable to bank bearing interest at 2.75%, secured by certain real property held for development, matured July 2010.</p>	-	238,988
<p>Note payable to bank, unsecured, non-interest bearing, maturing September 2011.</p>	100,000	100,000



**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

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

	<b>2011</b>	<b>2010</b>
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, 2011) until September 2012, at which time the entire principal balance is due in full.	506,099	347,486
Note payable to The Housing Fund bearing interest at 4.25%, secured by certain real property held for development, maturing December 2012.	406,500	480,115
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (0% at June 30, 2011), secured by certain real property held for development, maturing July 2013.	2,066,600	2,200,000
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 2.0% (1.25% at June 30, 2010), secured by certain real property held for development, maturing October 2012. The note was prepaid during the year ended June 30, 2011.	-	227,085
Note payable to an individual, unsecured, non-interest bearing, payable in monthly installments of \$2,500, maturing November 2011.	12,500	-
	<b><u>\$ 10,441,974</u></b>	<b><u>\$ 9,638,416</u></b>

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2012	\$ 701,086
2013	1,495,156
2014	2,638,988
2015	564,555
2016	554,315
Thereafter	10,461,949
Total principal maturities	16,416,049
Amounts representing imputed interest	(5,974,075)
	<b><u>\$ 10,441,974</u></b>

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**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>2011</u>	<u>2010</u>
THDA unamortized discount	\$ 5,974,075	\$ 4,805,828
Donor restricted contribution	279,500	322,904
Grants receivable – time restricted	345,196	496,630
Contributions receivable, net	<u>64,458</u>	<u>50,147</u>
	<u>\$ 6,663,229</u>	<u>\$ 5,675,509</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, 2011 and 2010 totaled \$255,295 and \$34,413, 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>2011</u>	<u>2010</u>
Building supplies and home appliances	\$ 422,604	\$ 322,093
Real property	63,000	122,000
In-kind rent	<u>105,000</u>	<u>105,000</u>
	<u>\$ 590,604</u>	<u>\$ 549,093</u>

During the years ended June 30, 2011 and 2010, approximately 5,000 and 6,000 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 U.S. generally accepted accounting principles.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

In connection with the development of Park Preserve and Timberwood subdivisions, Habitat has obtained letters of credit totaling \$2,087,000 at June 30, 2011 and 2010, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2011 and 2010. The letters of credit expire March 15, 2012.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$476,069 and \$450,270 for the years ended June 30, 2011 and 2010, respectively.

A summary of future minimum rental payments as of June 30, 2011 is as follows:

Year ending June 30,		
2012	\$	258,507
2013		179,009
2014		178,453
2015		171,197
2016		149,333
Thereafter		<u>53,172</u>
	\$	<u>989,671</u>

Additionally, the following future minimum rental payments are required for leases executed after June 30, 2011:

Year ending June 30,		
2012	\$	122,063
2013		209,250
2014		212,912
2015		219,299
2016		225,878
Thereafter		<u>95,272</u>
	\$	<u>1,084,674</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.

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION**

The following is supplemental cash flow information required by FASB ASC 230.

**Supplemental Cash Flow Information**

	2011	2010
Interest paid	\$ 62,396	\$ 35,504

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

Issuance of non-interest bearing mortgage loans	\$ 6,607,294	\$ 4,710,750
Discount on non-interest bearing mortgage loans	(2,980,658)	(2,132,015)
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 3,626,636	\$ 2,578,735
Loans transferred to real estate held for sale	\$ 118,114	\$ 181,925
Purchase of equipment through issuance of note payable	\$ -	\$ 20,060

**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 – RECLASSIFICATION**

Prior to fiscal year ending June 30, 2010, foundation grants receivable had been reported as unrestricted assets. Management has determined that certain time restricted foundation grants receivable previously reported as unrestricted assets should have been reported as temporarily restricted assets. As a result, previously reported net asset balances have been reclassified to report time restricted foundation grants receivable as temporarily restricted net assets. Accordingly, the following adjustments were recorded and the reclassified balances are as follows:

	June 30, 2009 As Originally Reported	Reclassification	June 30, 2009 Reclassified Balance
Unrestricted net assets	\$ 3,444,637	\$ (348,536)	\$ 3,096,101
Temporarily restricted	\$ 4,715,246	\$ 348,536	\$ 5,063,782

**NASHVILLE AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 16 – RECLASSIFICATION (Continued)**

	<b>June 30, 2010</b>		<b>June 30, 2010</b>
	<b>As Originally</b>		<b>Reclassified</b>
	<b>Reported</b>	<b>Reclassification</b>	<b>Balance</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Grant income-unrestricted	\$ 1,691,384	\$ (400,000)	\$ 1,291,384
Grant income-			
temporarily restricted	\$ -	\$ 400,000	\$ 400,000
Unrestricted net assets	\$ 3,837,941	\$ (496,630)	\$ 3,341,311
Temporarily restricted	\$ 5,178,879	\$ 496,630	\$ 5,675,509
Net assets released			
from restrictions	\$ 657,649	\$ 251,906	\$ 909,555

The reclassification had no effect on the total change in net assets or the total net assets as previously reported in the 2010 statement of activities.