

**HABITAT FOR HUMANITY
OF GREATER NASHVILLE**

FINANCIAL STATEMENTS

June 30, 2014 and 2013

HABITAT FOR HUMANITY OF GREATER NASHVILLE

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Nashville, as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dew + Hard, PLLC

September 18, 2014
Nashville, Tennessee

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents, including escrow accounts of \$527,233 and \$417,520, respectively	\$ 1,955,252	\$ 2,938,358
Grants receivable	529,803	457,779
Sponsor and other receivables	171,284	281,504
Contributions receivable, net	158,538	38,060
Real estate held for sale	312,690	353,659
Construction-in-progress - rehabilitation	1,471,234	298,458
Construction-in-progress - new homes	531,342	818,486
Property and equipment, net	502,768	593,112
Land held for development	4,054,311	3,598,417
Mortgage notes receivable, net of discounts of \$18,899,097 and \$17,502,744, respectively	24,718,023	22,947,473
New Markets Tax Credit ("NMTC") intangible assets, net	56,617	64,619
NMTC joint venture investment	1,456,067	1,431,254
NMTC joint venture cash	107,660	126,964
Other assets	899,326	901,501
	\$ 36,924,915	\$ 34,849,644
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 279,309	\$ 466,492
Deferred revenue	1,563,987	814,268
Escrow accounts	558,463	441,868
Notes payable	14,134,215	13,140,478
NMTC joint venture note payable	1,880,000	1,880,000
Unearned revenue on mortgage loans	5,264,321	5,394,712
	23,680,295	22,137,818
Net assets:		
Unrestricted	4,069,753	3,757,920
Temporarily restricted	9,174,867	8,953,906
	13,244,620	12,711,826
Total net assets	\$ 36,924,915	\$ 34,849,644

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Transfers to homeowners	\$ 5,634,091	\$ -	\$ 5,634,091	\$ 4,116,887
Cash contributions	2,405,832	-	2,405,832	2,633,152
Grant income	1,299,517	664,245	1,963,762	1,219,516
ReStore sales	1,820,840	-	1,820,840	1,775,679
THDA interest contribution	-	1,008,886	1,008,886	1,419,710
Mortgage loan discount amortization	675,477	-	675,477	577,270
In-kind contributions	364,637	-	364,637	410,852
Other income	220,095	-	220,095	54,290
NMTC investment income	39,115	-	39,115	10,654
Interest income	2,925	-	2,925	2,810
	<u>12,462,529</u>	<u>1,673,131</u>	<u>14,135,660</u>	<u>12,220,820</u>
Net assets released from restrictions	<u>1,452,170</u>	<u>(1,452,170)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,914,699</u>	<u>220,961</u>	<u>14,135,660</u>	<u>12,220,820</u>
Expenses:				
Program services	11,769,500	-	11,769,500	9,559,027
Supporting services	1,833,366	-	1,833,366	1,856,789
Total expenses	<u>13,602,866</u>	<u>-</u>	<u>13,602,866</u>	<u>11,415,816</u>
Change in net assets from operations	311,833	220,961	532,794	805,004
Contribution of net assets from Habitat for Humanity of Wilson County, Inc.	-	-	-	1,136,289
Change in net assets	311,833	220,961	532,794	1,941,293
Net assets at beginning of year	<u>3,757,920</u>	<u>8,953,906</u>	<u>12,711,826</u>	<u>10,770,533</u>
Net assets at end of year	<u>\$ 4,069,753</u>	<u>\$ 9,174,867</u>	<u>\$ 13,244,620</u>	<u>\$ 12,711,826</u>

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013
(with Comparative Totals for the Year Ended June 30, 2012)

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

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 532,794	\$ 1,941,293
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contribution of net assets from Wilson County	-	(1,136,289)
Non-cash grants	(473,080)	-
Non-cash construction costs	1,086,399	371,118
THDA interest contribution	(1,008,886)	(1,419,710)
Contribution of real property and equipment	(15,750)	-
Transfers to homeowners	(3,101,582)	(2,219,269)
Depreciation and amortization	143,830	143,304
Bad debt expense	-	71,130
Net gain on disposal of property	(79,624)	-
Mortgage loan discount amortization	(675,477)	(577,270)
Amortization of discount on notes payable	466,054	306,106
NMTC investment income allocation	(39,115)	(10,654)
Changes in operating assets and liabilities:		
Grants receivable	(72,024)	187,694
Sponsor and other receivables	(10,258)	(27,057)
Construction-in-progress	213,324	(669,648)
Land held for development	(446,394)	306,810
NMTC joint venture cash	19,304	(126,964)
Other assets	2,175	17,272
Accounts payable and accrued expenses	(187,183)	53
Deferred revenue	(26,584)	244,744
Escrow accounts	116,595	5,945
Net cash used in operating activities	(3,555,482)	(2,591,392)
Cash flows from investing activities:		
Cash received from Wilson County	-	338,194
Improvements to real estate held for sale	(125,828)	(227,661)
Purchases of property and equipment	(40,309)	(128,549)
Proceeds from disposal of property	159,809	-
Mortgage payments received	1,553,235	1,316,820
NMTC joint venture investment net distribution (contribution)	14,302	(1,420,600)
Acquisition of NMTC intangible assets	-	(71,287)
Net cash provided by (used in) investing activities	1,561,209	(193,083)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	2,556,961	3,270,323
Repayments on notes payable	(1,545,794)	(1,256,541)
Proceeds from NMTC note payable	-	1,880,000
Net cash provided by financing activities	1,011,167	3,893,782
Net (decrease) increase in cash and cash equivalents	(983,106)	1,109,307
Cash and cash equivalents at beginning of year	2,938,358	1,829,051
Cash and cash equivalents at end of year	\$ 1,955,252	\$ 2,938,358

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	Program Services				Supporting Services				
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	ReStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs-new homes	\$ 3,887,733	\$ -	\$ -	\$ -	\$ 3,887,733	\$ -	\$ -	\$ -	\$ 3,887,733
Salaries and related expenses	636,164	576,056	-	953,992	2,166,212	814,550	342,518	1,157,068	3,323,280
Mortgage discounts	-	-	2,538,379	-	2,538,379	-	-	-	2,538,379
Construction costs-reconstruction	1,350,062	-	-	-	1,350,062	-	-	-	1,350,062
Interest	474,170	1,933	-	6,359	482,462	1,933	26,518	28,451	510,913
Lease expense	83,774	41,408	-	252,402	377,584	47,837	20,735	68,572	446,156
Office expenses	38,036	34,773	-	121,178	193,987	49,629	16,938	66,567	260,554
Legal and professional	10,684	93,202	-	1,009	104,895	39,342	74,165	113,507	218,402
Taxes and insurance	46,869	15,842	-	53,590	116,301	19,363	6,231	25,594	141,895
Depreciation	40,053	17,241	-	46,556	103,850	20,729	11,249	31,978	135,828
Vehicle expenses	57,005	-	-	33,181	90,186	120	-	120	90,306
Recruiting and training	2,213	5,964	-	2,179	10,356	46,404	29,173	75,577	85,933
Repairs and maintenance	47,089	5,761	-	26,915	79,765	2,757	2,483	5,240	85,005
Travel, meals and entertainment	3,826	16,003	-	10,176	30,005	39,059	11,596	50,655	80,660
Other	6,663	43,142	-	5,356	55,161	7,930	10,727	18,657	73,818
Printing and public relations	120	3,289	-	2,802	6,211	63,555	128	63,683	69,894
Tithe to Habitat International	69,220	-	-	-	69,220	-	-	-	69,220
Special events	-	-	-	-	-	62,113	500	62,613	62,613
Bank and credit card fees	20,321	-	-	23,334	43,655	516	10,103	10,619	54,274
Small tools and equipment	29,117	758	-	20,175	50,050	1,240	659	1,899	51,949
Sponsor and volunteer appreciation	1,033	-	-	231	1,264	33,496	190	33,686	34,950
Advertising	-	253	-	3,679	3,932	10,878	-	10,878	14,810
Deconstruction	-	-	-	8,230	8,230	-	-	-	8,230
NMTC amortization	-	-	-	-	-	-	8,002	8,002	8,002
	<u>\$ 6,804,152</u>	<u>\$ 855,625</u>	<u>\$ 2,538,379</u>	<u>\$ 1,571,344</u>	<u>\$ 11,769,500</u>	<u>\$ 1,261,451</u>	<u>\$ 571,915</u>	<u>\$ 1,833,366</u>	<u>\$ 13,602,866</u>

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	Program Services					Supporting Services			
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Obligations	ReStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs-new homes	\$ 3,536,071	\$ -	\$ -	\$ -	\$ 3,536,071	\$ -	\$ -	\$ -	\$ 3,536,071
Salaries and related expenses	668,943	561,903	-	955,160	2,186,006	879,226	271,747	1,150,973	3,336,979
Mortgage discounts	-	-	1,812,339	-	1,812,339	-	-	-	1,812,339
Lease expense	84,236	40,133	-	245,243	369,612	51,819	16,895	68,714	438,326
Construction costs-reconstruction	409,294	-	-	-	409,294	-	-	-	409,294
Interest	314,508	2,037	-	6,939	323,484	2,037	21,249	23,286	346,770
Office expenses	34,349	30,472	-	101,690	166,511	53,222	14,396	67,618	234,129
Legal and professional	27,936	61,623	-	-	89,559	9,820	88,222	98,042	187,601
Depreciation	45,279	18,248	-	39,544	103,071	26,109	7,455	33,564	136,635
Taxes and insurance	64,837	9,745	-	36,039	110,621	12,230	4,001	16,231	126,852
Vehicle expenses	58,184	3,405	-	35,111	96,700	8,432	1,335	9,767	106,467
Repairs and maintenance	57,410	7,441	-	28,045	92,896	4,077	1,698	5,775	98,671
Other	9,265	44,246	-	7,092	60,603	14,462	12,308	26,770	87,373
Tithe to Habitat International	82,986	-	-	-	82,986	-	-	-	82,986
Recruiting and training	3,587	7,618	-	1,979	13,184	42,253	26,106	68,359	81,543
Printing and public relations	242	337	-	5,557	6,136	72,565	300	72,865	79,001
Bad debt expense	-	-	-	-	-	-	71,130	71,130	71,130
Special events	-	-	-	-	-	62,926	389	63,315	63,315
Travel, meals and entertainment	2,884	9,300	-	5,901	18,085	26,311	12,420	38,731	56,816
Bank and credit card fees	15,446	93	-	23,472	39,011	83	5,047	5,130	44,141
Small tools and equipment	20,516	-	-	5,511	26,027	2,076	-	2,076	28,103
Sponsor and volunteer appreciation	-	48	-	33	81	21,828	-	21,828	21,909
Deconstruction	-	-	-	12,094	12,094	-	-	-	12,094
Advertising	-	-	-	4,656	4,656	5,946	-	5,946	10,602
NMTC amortization	-	-	-	-	-	-	6,669	6,669	6,669
	<u>\$ 5,435,973</u>	<u>\$ 796,649</u>	<u>\$ 1,812,339</u>	<u>\$ 1,514,066</u>	<u>\$ 9,559,027</u>	<u>\$ 1,295,422</u>	<u>\$ 561,367</u>	<u>\$ 1,856,789</u>	<u>\$ 11,415,816</u>

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 – ORGANIZATION AND PURPOSE

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Income Taxes

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

Habitat follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Habitat has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include the years ended June 30, 2011 through June 30, 2014. Habitat has no uncertain tax positions at June 30, 2014 and 2013.

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
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

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, 2014 and 2013 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, 2014 and 2013.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

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

Home Sales and Mortgage Notes Receivable

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgage notes receivable. These mortgage payments do not include interest and, accordingly, the mortgages have been discounted at various interest rates 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. The discounted value of mortgages at the time of sale is generally less than the home's fair market value. Therefore, management believes that losses resulting from non-payment of mortgages are not reasonably probable, and accordingly, no allowance for mortgage notes receivable has been recorded. Past due status is based on contractual terms of the mortgage notes receivable. At 120 days past due, the mortgage notes receivable become subject to foreclosure.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Home Sales and Mortgage Notes Receivable (Continued)

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

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. Interest incurred on related debt during the construction period is capitalized as 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 and amounts received through The Housing Fund, Inc. via a Community Development Block Grant. Deposits on conditional promises to give are from sponsors of future home building and totaled \$638,659 and \$608,585 at June 30, 2014 and 2013, respectively. Amounts received through The Housing Fund, Inc. totaled \$925,328 and \$205,683 at June 30, 2014 and 2013, respectively, and represent amounts that have been expended toward the purchase and rehabilitation of homes in flood impacted areas. The deferred revenue will be recognized as income only upon completion of the rehabilitation and sale of the home to a qualifying family.

Revenue Recognition

Contributions are recognized as revenue when received. Contributed land and equipment are recorded at fair value at the date of the donation. In-kind contributions (primarily construction materials and land for development) are recorded based on their estimated value on the date of receipt.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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.

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.

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

Grant Income

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

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

Program Services

Program services include construction, ReStore operations, family support and educational ministries and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of new homes transferred, which have an average cost of \$114,345 and \$107,154 for the years ended June 30, 2014 and 2013, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$14,810 and \$10,602 for the years ended June 30, 2014 and 2013, respectively.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Financial Information

The financial statements include certain 2012 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, 2012, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

Subsequent Events

Habitat evaluated subsequent events through September 18, 2014, when these financial statements were available to be issued. Habitat is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – GRANTS RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Federal Home Loan Bank	\$ 395,750	\$ 206,250
Foundations and other	<u>134,053</u>	<u>251,529</u>
	<u>\$ 529,803</u>	<u>\$ 457,779</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>2014</u>	<u>2013</u>
Amount receivable within one year	\$ 79,338	\$ 32,060
Amount receivable in 1 to 5 years	<u>79,200</u>	<u>6,000</u>
	158,538	38,060
Less allowance for uncollectible contributions	<u>-</u>	<u>-</u>
Contributions receivable, net	<u>\$ 158,538</u>	<u>\$ 38,060</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 5 – CONSTRUCTION-IN-PROGRESS – REHABILITATION

Construction-in-progress consists of homes purchased with funds provided by The Housing Fund, Inc. in flood impacted areas for the purpose of rehabilitation and sale to qualified partner families. At June 30, 2014 and 2013, costs accumulated under this agreement totaled \$1,471,234 and \$298,458, respectively, including capitalized interest on related debt of \$11,859 and \$0, respectively.

A summary of rehabilitation activity for 2014 is as follows:

	<u>Number</u>	<u>Costs</u>
Homes under rehabilitation, June 30, 2013	3	\$ 298,458
Additional costs incurred on beginning inventory		102,171
Homes purchased and started in 2014	17	1,982,197
Homes closed in 2014	<u>(7)</u>	<u>(911,592)</u>
Homes under rehabilitation, June 30, 2014	<u>13</u>	<u>\$ 1,471,234</u>

NOTE 6 – CONSTRUCTION-IN-PROGRESS – NEW HOMES

A summary of new home construction activity for 2014 is as follows:

	<u>Number</u>	<u>Costs</u>
New homes under construction, June 30, 2013	22	\$ 818,486
Additional costs incurred on beginning inventory		1,600,416
New homes started in 2014	27	2,000,173
New homes closed in 2014	<u>(34)</u>	<u>(3,887,733)</u>
New homes under construction, June 30, 2014	<u>15</u>	<u>\$ 531,342</u>

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Buildings	\$ 249,720	\$ 242,230
Office equipment	220,216	232,535
Leasehold improvements	221,978	221,978
Vehicles and trailers	280,310	280,310
Other	<u>216,750</u>	<u>214,227</u>
	1,188,974	1,191,280
Less accumulated depreciation	<u>(686,206)</u>	<u>(598,168)</u>
	<u>\$ 502,768</u>	<u>\$ 593,112</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 8 – LAND HELD FOR DEVELOPMENT

Land held for development consists of real property and incurred development costs for the purpose of future home construction. Land held for development consists of the following by area at June 30:

	<u>2014</u>	<u>2013</u>
Park Preserve	\$ 3,183,234	\$ 3,249,063
Hallmark	707,004	-
Dickson County	67,796	92,994
Edison Park	51,318	186,839
Wilson County	35,459	51,521
Other	<u>9,500</u>	<u>18,000</u>
	<u>\$ 4,054,311</u>	<u>\$ 3,598,417</u>

NOTE 9 – MORTGAGE NOTES RECEIVABLE

At June 30, 2014 and 2013, Habitat holds mortgage notes receivable totaling \$43,617,120 and \$40,450,217, respectively, at face value generally with original maturities of 30 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The notes have been discounted at various interest rates ranging from 4.5% to 9% using the straight line method over the lives of the mortgages. Mortgages are reported net of amortized cost. Mortgage notes receivable and the related discount are summarized as follows at June 30:

	<u>2014</u>	<u>2013</u>
First mortgages	\$ 32,627,098	\$ 30,286,441
Second mortgages	9,601,490	8,850,142
Third mortgages	<u>1,388,532</u>	<u>1,313,634</u>
	43,617,120	40,450,217
Less unamortized discount	<u>(18,899,097)</u>	<u>(17,502,744)</u>
	<u>\$ 24,718,023</u>	<u>\$ 22,947,473</u>

In previous years, Habitat sold non-interest bearing mortgage notes receivable to a financial institution. At June 30, 2014 and 2013, the total principal balance of sold mortgages was \$955,179 and \$1,110,154, respectively. The sales have a provision that requires Habitat to repurchase the notes in the event of default. In the event the notes are repurchased, Habitat has the right to foreclose and resell the associated properties.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 9 – MORTGAGE NOTES RECEIVABLE (Continued)

Principal payments due on mortgage notes receivable are as follows:

Year ending June 30,		
2015	\$	1,649,480
2016		1,653,210
2017		1,635,668
2018		1,617,361
2019		1,565,403
Thereafter (including non-paying second and third mortgages of \$7,825,932)		<u>35,495,998</u>
Notes receivable at face value		43,617,120
Less: unamortized discount		<u>(18,899,097)</u>
		<u>\$ 24,718,023</u>

Following is a table which includes an aging analysis of the recorded investment of past due mortgage notes receivable.

	<u>2014</u>	<u>2013</u>
31-60 days past due	\$ -	\$ -
61-90 days past due	390,804	374,644
Greater than 90 days past due	<u>315,936</u>	<u>532,724</u>
Total past due	706,740	907,368
Current	<u>42,910,380</u>	<u>39,542,849</u>
	<u>\$ 43,617,120</u>	<u>\$ 40,450,217</u>

NOTE 10 – NEW MARKETS TAX CREDIT INTANGIBLE ASSETS

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 10 – NEW MARKETS TAX CREDIT INTANGIBLE ASSETS (Continued)

As of June 30, the balances of NMTC intangible assets and accumulated amortization are as follows.

	<u>2014</u>	<u>2013</u>
Qualified active low income community business (“QALICB”) guarantor fee	\$ 44,136	\$ 44,136
NMTC closing costs	<u>27,151</u>	<u>27,151</u>
	71,287	71,287
Accumulated NMTC amortization	<u>(14,670)</u>	<u>(6,668)</u>
NMTC intangible assets, net	<u>\$ 56,617</u>	<u>\$ 64,619</u>

NOTE 11 – NEW MARKETS TAX CREDIT JOINT VENTURE INVESTMENT

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

The investment in joint venture is accounted for using the equity method and the carrying amount of the investment is increased for Habitat’s proportionate share of the joint venture’s earnings and decreased for Habitat’s proportionate share of the joint venture’s losses.

The activity of the NMTC joint venture investment during the year ended June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 1,431,254	\$ -
Capital contributed	-	1,430,134
Distributions received	(14,302)	(9,534)
Share of income	<u>39,115</u>	<u>10,654</u>
Ending balance	<u>\$ 1,456,067</u>	<u>\$ 1,431,254</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 12 – NOTES PAYABLE

	<u>2014</u>	<u>2013</u>
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments totaling \$65,813 (at June 30, 2014) with varying maturities through July 2044, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of \$10,494,748. The notes payable have an undiscounted balance outstanding of \$19,333,331 and \$18,200,868 at June 30, 2014 and 2013, 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 \$1,008,886 and \$1,419,710 has been recognized in 2014 and 2013 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, 2014 and 2013 amounted to \$8,838,583 and \$8,295,752, respectively.	\$ 10,494,748	\$ 9,905,116
Note payable to bank, variable interest at Wall Street Journal Prime (as defined) less 4.0% (0% at June 30, 2014), secured by certain real property held for development, maturing July 2015.	1,606,600	1,773,400
Notes payable to The Housing Fund, Inc. secured by certain real property, bearing interest at 3%, payable in 120 equal monthly principal installments ranging from \$206 to \$420, through approximately June 2026.	638,795	88,150
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$211 to \$3,125 through June 2019.	597,044	655,774
Notes payable to bank secured by mortgages receivable, bearing interest at 2%, payable in monthly installments totaling \$1,000, maturing November 2037 through November 2038.	228,044	-
Notes payable to bank secured by mortgages receivable, bearing interest at 4.15%, payable in monthly installments totaling \$1,134, maturing July 2042.	224,875	228,924

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 12 – NOTES PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
Note payable to bank, secured by certain real property, bearing interest at 5.75%, payable in monthly installments of \$1,570, maturing April 2026.	160,746	169,921
Note payable to Tennessee Housing Development Agency, bearing interest at 4%, payable in annual principal installments of \$20,000 plus interest, maturing August 2021.	160,000	180,000
Note payable to bank secured by equipment, bearing interest at 4.5%, payable in monthly installments of \$696, maturing February 2016.	13,387	20,935
Note payable to bank secured by equipment, bearing interest at 4.75%, payable in monthly installments of \$522, maturing November 2015.	8,559	14,263
Notes payable to bank secured by certain real property, non-interest bearing, payable in monthly installments of \$146 and \$191, maturing at various times through April 2015.	1,417	3,995
Note payable to bank, unsecured, non-interest bearing, matured October 2013.	<u>-</u>	<u>100,000</u>
	<u>\$ 14,134,215</u>	<u>\$ 13,140,478</u>

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2015	\$ 1,062,750
2016	2,673,849
2017	1,041,186
2018	1,015,799
2019	918,796
Thereafter	<u>16,260,418</u>
Total principal maturities	22,972,798
Amounts representing imputed interest	<u>(8,838,583)</u>
	<u>\$ 14,134,215</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 13 – LINE OF CREDIT

Habitat has a \$950,000 unsecured line of credit agreement with a bank bearing interest at the prime rate plus 1% (4.25% at June 30, 2014). The line of credit has a maturity date of November 2014. Management intends to renew the line of credit agreement with its bank. At June 30, 2014 and 2013, no borrowings were outstanding under the line of credit agreement.

NOTE 14 – NEW MARKETS TAX CREDIT JOINT VENTURE – NOTE PAYABLE

Habitat has a loan payable to CCM Community Development XXVII, LLC (“CCM”), a community development entity, dated August 31, 2012 as part of the NMTC transaction. It is a 15-year loan bearing interest at 0.76% with semi-annual interest-only payments for 7 years commencing on November 10, 2012 and continue until November 10, 2020. Principal and interest payments are to commence on November 10, 2020 due semi-annually to then fully amortize the principal balance over an 8-year period. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the joint venture’s related parties that is expected to be exercised in 2020 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2014 and 2013 is \$1,880,000.

As a component of the NMTC transaction, Habitat received a loan in the amount of \$1,880,000 payable to CCM. Simultaneous with these transactions, the LLC entered into an option agreement (the “Agreement”) with U.S. Bancorp Community Development Corporation (“USBCDC”), the federal tax credit investor, who is the sole-member of CCM CD 27 Investment Fund, LLC (the “Fund”), and the upstream effective owner of CCM. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund for \$1,000, during the six month put period beginning September 15, 2019. Exercise of this option will effectively extinguish Habitat’s outstanding debt owed to the Fund. Habitat will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off Habitat’s books. All entities including CCML Leverage II, LLC, will then be dissolved effectively ending the structured financing deal.

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

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 15 – 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>2014</u>	<u>2013</u>
THDA unamortized discount	\$ 8,838,583	\$ 8,295,752
Donor restricted contribution	326,151	429,175
Grants receivable – time restricted	-	200,000
Contributions receivable, net	<u>10,133</u>	<u>28,979</u>
	<u>\$ 9,174,867</u>	<u>\$ 8,953,906</u>

NOTE 16 – 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, 2014 and 2013 totaled \$110,676 and \$180,670, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Park Preserve and Edison Park subdivisions, Habitat has obtained letters of credit totaling \$770,250 and \$1,362,000 at June 30, 2014 and 2013 respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2014 and 2013. The letters of credit expire March 2015 through December 2015.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to \$446,156 and \$438,326 for the years ended June 30, 2014 and 2013, respectively. A summary of future minimum rental payments as of June 30, 2014 is as follows:

Year ending June 30,	
2015	\$ 442,245
2016	410,338
2017	168,164
2018	<u>12,700</u>
	<u>\$ 1,033,447</u>

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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 18 – IN-KIND CONTRIBUTIONS

In-kind contributions received by Habitat are recorded based on their estimated value on the date of receipt. A summary of in-kind contributions is as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Building supplies and home appliances	\$ 348,887	\$ 410,852
Real property held for development	9,500	-
Property and equipment	<u>6,250</u>	<u>-</u>
	<u>\$ 364,637</u>	<u>\$ 410,852</u>

During the years ended June 30, 2014 and 2013, approximately 7,000 and 8,000 individuals, respectively, contributed significant amounts of time to Habitat’s activities. The financial statements do not reflect the value of these services because they do not meet the recognition criteria prescribed by accounting principles generally accepted in the United States of America.

NOTE 19 – THE HOUSING FUND, INC. COMMUNITY DEVELOPMENT BLOCK GRANT

Habitat entered into a grant and loan agreement with The Housing Fund, Inc. to acquire and rehabilitate homes which are located in areas that were impacted by the May 2010 floods in Nashville. The grant funds are provided by a Community Development Block Grant. Total funds available to Habitat under the agreement are not to exceed \$3,000,000. 70% of the funds received will be in the form of a grant with the remaining 30% repayable under a 10 year note payable at 3% interest. Acquisition of properties must be approved by The Housing Fund, Inc. prior to purchase. Seven homes were transferred to qualified families during the year ended June 30, 2014 and another thirteen homes were under renovation at June 30, 2014.

Balances related to the agreement in the accompanying financial statements are as follows at June 30:

	<u>2014</u>	<u>2013</u>
Grants receivable	\$ 132,589	\$ -
Construction-in-progress - rehabilitation	\$ 1,471,234	\$ 298,458
Deferred revenue	\$ 925,328	\$ 205,683
Notes payable	\$ 638,795	\$ 88,150
Grant income	\$ 702,027	\$ -

NOTE 20 – 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.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

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

Supplemental Cash Flow Information

	2014	2013
Interest paid	\$ 39,095	\$ 28,960

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$ 5,639,961	\$ 4,031,608
Discount on non-interest bearing mortgage loans	<u>(2,538,379)</u>	<u>(1,812,339)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 3,101,582</u>	<u>\$ 2,219,269</u>
Loans transferred to real estate held for sale	<u>\$ 322,883</u>	<u>\$ 253,707</u>
Additions to construction-in-progress - rehabilitation through deferred revenue and issuance of notes payable	<u>\$ 1,774,785</u>	<u>\$ 212,893</u>

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

Assets transferred from Wilson County:

Cash and cash equivalents	\$ 338,194
Accounts receivable	29,232
Real estate held for sale	10,000
Property and equipment	241,894
Non-interest bearing mortgages, net	1,558,611
Other assets	44,464
	<u>2,222,395</u>

Liabilities assumed from Wilson County:

Accounts payable	8,769
Accrued expenses	11,566
Escrow accounts	104,323
Unearned revenue on mortgage loans	517,645
Notes payable	443,803
	<u>1,086,106</u>

HABITAT FOR HUMANITY OF GREATER NASHVILLE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

Net assets contributed by Wilson County to Habitat:

Unrestricted	988,045
Temporarily restricted	<u>148,244</u>
	<u>\$ 1,136,289</u>

NOTE 22 – RELATED PARTIES

At June 30, 2014 and 2013, Habitat owed notes payable totaling \$1,767,346 and \$2,043,321, respectively, to a financial institution which has two officers that serve on Habitat's board of directors.

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

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, 2014 and 2013, Habitat contributed \$69,220 and \$82,986, respectively, to Habitat International. At June 30, 2014 and 2013, the accompanying statements of financial position included tithe payable to Habitat International of \$23,479 and \$1,298, respectively.

Habitat has received Self-Help Homeownership Opportunity Program ("SHOP") funds from Habitat International. 75% of the funds received were in the form of a grant with the remaining 25% repayable under non-interest bearing four year notes payable. During the years ended June 30, 2014 and 2013, Habitat received \$9,115 and \$414,086, respectively, of SHOP funds. At June 30, 2014 and 2013, the balances of the loans totaled \$597,044 and \$655,774, respectively.