

**HABITAT FOR HUMANITY OF
WILLIAMSON COUNTY, TENNESSEE, INC.**

FINANCIAL STATEMENTS

June 30, 2009 and 2008

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Williamson County, Tennessee, Inc.
Franklin, Tennessee

We have audited the accompanying statements of financial position of Habitat for Humanity of Williamson County, Tennessee, Inc. as of June 30, 2009 and 2008, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Williamson County, Tennessee, Inc. as of June 30, 2009 and 2008 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

October 28, 2009

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	2009	2008
Assets		
Cash	\$ 303,992	\$ 98,022
Sponsorships receivable, net	521,901	818,434
Construction in progress	456,160	193,771
Land held for development	158,974	10,005
Non-interest bearing mortgage loans receivable, net of discount of \$1,758,529 and \$1,364,692, respectively	3,078,637	2,820,783
Property and equipment, net	52,948	42,251
Prepaid expenses and other	124,368	103,651
	\$ 4,696,980	\$ 4,086,917
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 62,961	\$ 118,146
Escrow accounts	41,324	45,104
Lines of credit	412,989	394,000
Notes payable	499,933	92,725
Unearned revenue on second mortgage loans	411,147	243,573
	1,428,354	893,548
Net assets:		
Unrestricted	2,662,710	2,337,406
Temporarily restricted	605,916	855,963
	3,268,626	3,193,369
	\$ 4,696,980	\$ 4,086,917

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Transfers to homeowners	\$ 795,000	\$ -	\$ 795,000
Contributions	347,201	342,184	689,385
ReStore sales	641,971	-	641,971
Other income	259,229	-	259,229
Mortgage loan discount amortization	209,781	-	209,781
Special events	123,958	-	123,958
	<u>2,377,140</u>	<u>342,184</u>	<u>2,719,324</u>
Satisfaction of restrictions	<u>592,231</u>	<u>(592,231)</u>	<u>-</u>
Total support and revenue	<u>2,969,371</u>	<u>(250,047)</u>	<u>2,719,324</u>
Expenses:			
Program services	2,196,592	-	2,196,592
Management and general	287,131	-	287,131
Fundraising	160,344	-	160,344
Total expenses	<u>2,644,067</u>	<u>-</u>	<u>2,644,067</u>
Change in net assets	325,304	(250,047)	75,257
Net assets at beginning of year	<u>2,337,406</u>	<u>855,963</u>	<u>3,193,369</u>
Net assets at end of year	<u>\$ 2,662,710</u>	<u>\$ 605,916</u>	<u>\$ 3,268,626</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 123,569	\$ 1,370,878	\$ 1,494,447
Transfers to homeowners	775,000	-	775,000
ReStore sales	556,792	-	556,792
Mortgage loan discount amortization	138,838	-	138,838
Special events	133,953	-	133,953
Other income	78,793	-	78,793
	<u>1,806,945</u>	<u>1,370,878</u>	<u>3,177,823</u>
Satisfaction of restrictions	<u>697,478</u>	<u>(697,478)</u>	<u>-</u>
Total support and revenue	<u>2,504,423</u>	<u>673,400</u>	<u>3,177,823</u>
Expenses:			
Program services	1,962,017	-	1,962,017
Management and general	207,623	-	207,623
Fundraising	357,819	-	357,819
Total expenses	<u>2,527,459</u>	<u>-</u>	<u>2,527,459</u>
Change in net assets	(23,036)	673,400	650,364
Net assets at beginning of year	<u>2,360,442</u>	<u>182,563</u>	<u>2,543,005</u>
Net assets at end of year	<u>\$ 2,337,406</u>	<u>\$ 855,963</u>	<u>\$ 3,193,369</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 75,257	\$ 650,364
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	18,826	12,381
Transfers to homeowners, net	(349,933)	(463,053)
Non-cash construction costs	74,861	-
Mortgage loan discount amortization	(211,986)	(124,792)
Loss on disposal of equipment	4,336	24,796
Notes payable discount	(233,760)	-
Changes in operating assets and liabilities:		
Sponsorships receivable, net	296,533	(656,812)
Land held for development	(148,969)	128,566
Construction in progress, net	(116,366)	113,256
Prepaid expenses and other	(20,717)	(19,618)
Accounts payable and accrued expenses	(55,185)	(87,849)
Escrow accounts	(3,780)	9,334
Net cash used in operating activities	<u>(670,883)</u>	<u>(413,427)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(33,859)	(9,671)
Mortgage payments received	250,755	278,637
Net cash provided by investing activities	<u>216,896</u>	<u>268,966</u>
Cash flows from financing activities:		
Proceeds from line of credit, net	18,989	94,000
Payments on notes payable	(155,882)	(84,295)
Proceeds from notes payable	796,850	152,020
Net cash provided by financing activities	<u>659,957</u>	<u>161,725</u>
Net increase in cash and cash equivalents	205,970	17,264
Cash and cash equivalents at beginning of year	<u>98,022</u>	<u>80,758</u>
Cash and cash equivalents at end of year	<u>\$ 303,992</u>	<u>\$ 98,022</u>
Supplemental Information:		
Cash paid for interest	<u>\$ 23,216</u>	<u>\$ 33,095</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	Program Services			Discounts on		Management and		Supporting Services		Total
	Program Services	ReStore		Mortgage Obligations	Total	General	Fundraising	Total		
Construction costs	\$ 1,044,537	\$ -	\$ -	\$ -	\$ 1,044,537	\$ -	\$ -	\$ -	\$ 1,044,537	
Salaries and related expenses	74,982	142,584	-	-	217,566	133,774	76,999	210,773	428,339	
Mortgage discounts	-	-	445,067	-	445,067	-	-	-	445,067	
Cost of sales	-	178,009	-	-	178,009	-	-	-	178,009	
Rent	20,910	90,372	-	-	111,282	13,749	10,703	24,452	135,734	
Insurance	35,186	26,877	-	-	62,063	13,816	6,153	19,969	82,032	
Miscellaneous	10,562	30,314	-	-	40,876	1,736	6,008	7,744	48,620	
Habitrot and Golf Marathon	-	-	-	-	-	-	46,146	46,146	46,146	
Repairs and maintenance	9,259	23,590	-	-	32,849	3,452	2,671	6,123	38,972	
Utilities	7,981	16,850	-	-	24,831	3,419	2,784	6,203	31,034	
Interest	-	193	-	-	193	23,023	-	23,023	23,216	
Travel and entertainment	13,375	1,670	-	-	15,045	2,197	2,034	4,231	19,276	
Depreciation and amortization	-	1,658	-	-	1,658	17,168	-	17,168	18,826	
Contributions	-	-	-	-	-	17,284	-	17,284	17,284	
Tithes to Habitat for Humanity International, Inc.	-	-	-	-	-	16,800	-	16,800	16,800	
Bad debt expense	-	-	-	-	-	16,733	-	16,733	16,733	
Legal and professional	579	697	-	-	1,276	12,745	348	13,093	14,369	
Office expenses	5,589	60	-	-	5,649	5,756	1,721	7,477	13,126	
Supplies	4,187	1,198	-	-	5,385	2,059	1,314	3,373	8,758	
Advertising and promotion	-	5,489	-	-	5,489	-	1,684	1,684	7,173	
Loss on disposal of equipment	-	4,336	-	-	4,336	-	-	-	4,336	
Service charges and fees	-	381	-	-	381	3,420	-	3,420	3,801	
Printing and publications	100	-	-	-	100	-	1,779	1,779	1,879	
	<u>\$ 1,227,247</u>	<u>\$ 524,278</u>	<u>\$ 445,067</u>	<u>\$ 2,196,592</u>	<u>\$ 287,131</u>	<u>\$ 160,344</u>	<u>\$ 447,475</u>	<u>\$ 2,644,067</u>		

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008

	Program Services			Discounts on		Management and General		Supporting Services		Total
	Program Services	ReStore	Mortgage Obligations	Total	General	Fundraising	Total			
Construction costs	\$ 854,281	\$ -	\$ -	\$ 854,281	\$ -	\$ -	\$ -	\$ -	\$ 854,281	
Salaries and related expenses	104,461	139,921	-	244,382	107,904	70,208	178,112	422,494		
Mortgage discounts	-	-	311,947	311,947	-	-	-	311,947		
Rent	21,528	143,189	-	164,717	13,455	10,764	24,219	188,936		
Cost of sales	-	156,122	-	156,122	-	-	-	156,122		
Legal and professional	1,253	-	-	1,253	9,669	120,215	129,884	131,137		
Miscellaneous	5,178	62,259	-	67,437	17,587	7,945	25,532	92,969		
Bad debt expense	-	-	-	-	-	62,975	62,975	62,975		
Insurance	24,576	15,039	-	39,615	8,583	8,178	16,761	56,376		
Habitrot and Golf Marathon	-	-	-	-	-	55,501	55,501	55,501		
Utilities	7,263	21,813	-	29,076	4,807	3,578	8,385	37,461		
Interest	23,718	-	-	23,718	9,377	-	9,377	33,095		
Loss on disposal of equipment	-	23,863	-	23,863	933	-	933	24,796		
Office expenses	6,793	222	-	7,015	11,377	3,833	15,210	22,225		
Repairs and maintenance	4,263	10,303	-	14,566	1,997	1,582	3,579	18,145		
Tithes to Habitat for Humanity International, Inc.	-	-	-	-	12,726	-	12,726	12,726		
Depreciation and amortization	3,960	3,966	-	7,926	2,475	1,980	4,455	12,381		
Supplies	4,201	1,559	-	5,760	2,831	2,173	5,004	10,764		
Advertising and promotion	-	8,224	-	8,224	-	2,482	2,482	10,706		
Printing and publications	-	40	-	40	180	5,470	5,650	5,690		
Travel and entertainment	1,319	523	-	1,842	1,596	935	2,531	4,373		
Service charges and fees	-	233	-	233	2,126	-	2,126	2,359		
	<u>\$ 1,062,794</u>	<u>\$ 587,276</u>	<u>\$ 311,947</u>	<u>\$ 1,962,017</u>	<u>\$ 207,623</u>	<u>\$ 357,819</u>	<u>\$ 565,442</u>	<u>\$ 2,527,459</u>		

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 – ORGANIZATION AND PURPOSE

Habitat for Humanity of Williamson County, Tennessee, Inc. (“Habitat”), is a nonprofit, tax-exempt corporation organized in the State of Tennessee in 1992, whose goal is to provide affordable housing for low-income families in Williamson County, Tennessee. Habitat is an affiliate of Habitat for Humanity International (“HFHI”).

Habitat is an ecumenical housing ministry that helps people in need afford decent housing. The houses are funded primarily with money contributed by sponsors and other supporters. Prior to September 2007, families who qualify purchased their homes at cost and paid the purchase price back over a 20-year period with no interest. Mortgages closed after September 2007 are paid back over 25 years and mortgages closed after April 2009 are back over 30 years. Monthly collections, except for taxes and insurance, are recycled into building more homes for other needy families. Families are chosen by the Habitat’s family selection committee. The need for a decent house is the most important criterion in the selection of a family. Only families who cannot purchase a house through conventional means are considered. A family must prove by their employment history and current income that they will be able to pay the cost of their home. The character of the potential homeowners and cohesiveness of the family are also important considerations. The family must give evidence that they will take pride in their home and community. Habitat’s goal is to serve as a partner with all Habitat families. Families must put in 500 hours of work on either their home or other Habitat homes. In addition, families are required to attend a budgeting class.

House design and construction are overseen by a local construction manager who consults with the family as to their housing needs. The houses are primarily built by the future home owners, sponsors and other volunteers. Hired labor is used when required by building codes or when it is more efficient to use it.

The idea of Habitat is to build a permanent community. Family selection is based on the premise that members of that community will wish to live in their homes permanently. However, if the family sells the home within ten years from the date of purchase, they pay Habitat a percentage of the profit realized. This percentage starts at 90% if the home is sold during the first year of occupancy and ends at 10% in the tenth year of occupancy.

Habitat is bound to HFHI through an affiliate covenant. HFHI primarily assists local affiliates with information resources, training, publications, prayers and other general administrative support.

Habitat operates from facilities located in Franklin, Tennessee, and receives its support primarily from the Williamson County (Middle Tennessee) area. It is supported primarily by charitable grants, sales of low-income housing, contributions and fundraising events.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Habitat have been prepared on the accrual basis of accounting. The significant accounting policies 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.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Habitat. Habitat had no permanently restricted net assets at June 30, 2009 and 2008.

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.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenues depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets other than cash are recorded at market value at the date of donation.

Habitat operates the Habitat for Humanity ReStore (“ReStore”), a retail operation, where home furnishings, appliances and other miscellaneous items are donated and then sold to the community at a greatly reduced price. Additionally, Habitat purchases a number of inventory items for sale at ReStore. ReStore sales are recognized as revenue at the time the merchandise is transferred to the customer. Sales returns have not been significant.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Sponsorships of homes are solicited from the public, specifically recognizable groups such as churches, schools, civic organizations, business organizations, etc. A full sponsorship of a home is \$60,000. Co-sponsorships are allowed. Sponsors are required to sign a sponsorship agreement which is an unconditional promise to give. Cash and/or in-kind donations, primarily materials, are counted toward fulfilling the sponsorship. Sponsors also commit to provide between 1,000 and 1,300 man-hours of general construction labor.

Sponsorship receivables generally state that full payment is due sixty days prior the scheduled build date. Certain individual sponsorship agreements may state specific partial payment amounts and due dates. Account balances with invoices dated over thirty days old are considered delinquent. The carrying amount of sponsorships receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Sponsorships receivable are written off when, at management's discretion, further collections will not be pursued on an account.

Grants and bequests, primarily from state and local housing authorities or private foundations, may require the fulfillment of certain conditions as set forth in the grant or bequest notification/instrument. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although such a circumstance is a possibility, management deems the contingency remote because Habitat has historically complied with donor provisions. By accepting the gifts and their terms, Habitat has demonstrated its intent and its policy to accommodate the provisions of the gifts and to coordinate them with the objectives of Habitat.

Mortgages receivable are secured by deeds of trust on the real estate sold. Payments are due monthly. When a loan becomes sixty days past due, the homeowner is required to attend classes on budgeting and is required to fulfill a payment plan to become current on the mortgage. Per Board policy, foreclosure proceedings are required to be initiated at ninety days past due.

Unearned revenue on second mortgage loans represents the discounted value of non-interest bearing second mortgage loans obtained on Habitat loans. 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.

Land Held for Development

Land held for development consists primarily of residential building lots on which the low-income houses are built. Cost of land is allocated to houses sold based on the average cost of total lots per tract purchased. Each tract of land is generally expected to be used within one year.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Project Costs and Sales of Homes

Costs incurred to acquire and to develop land, whether donated or paid by Habitat, are capitalized as inventory until the land is ready for use as residential building lots. Once the development costs have been completed, the lots within a given tract of land are allocated equally based upon the total number of lots developed. The cost of the lots on which construction is taking place is removed from land held for development and included in construction in progress, which also includes the costs of materials and labor used to build the houses. Construction costs are capitalized as incurred, and are allocated to individual building projects primarily by specific identification. When a building project is completed and ownership of the home is transferred to the homeowner, the total cost capitalized for that home is removed from construction in progress and is charged to construction cost, which is included in functional expenses, classified as program services. Home sales revenue is recorded at the amount of the mortgage the homeowner agrees to pay in return for the property. The entire cycle, from acquisition of land until completion of the home and transfer of ownership to the homeowner, typically takes place in less than one year.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method. Donated property and equipment are recorded at their estimated market value at the date of the gift.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property or equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in the change in unrestricted net assets.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$7,173 and \$10,706 for the years ended June 30, 2009 and 2008, respectively.

Program Services

Program services include construction, ReStore operations, family support and educational ministries and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of homes transferred, which have an average cost per home of \$130,567 and \$94,920 for the years ended June 30, 2009 and 2008, respectively.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

Unpaid volunteers make contributions of time in various administrative, fundraising and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to objective measurement or valuation.

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.

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 certain amounts and disclosures. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon management's analysis.

NOTE 3 – CREDIT RISK AND OTHER CONCENTRATIONS

Habitat occasionally maintains cash on deposit at banks in excess of federally insured amounts. Habitat has not experienced any losses in such accounts and management believes Habitat is not exposed to any significant credit risk related to cash.

Habitat provides housing for low-income families. These houses are funded primarily by contributions from sponsors and other supporters primarily in the Middle Tennessee area. Accordingly, substantially all sponsorships receivable are due from such supporters.

NOTE 4 – SPONSORSHIPS RECEIVABLE

Habitat has included unconditional promises to give as sponsorships receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 4 – SPONSORSHIPS RECEIVABLE (Continued)

Sponsorships are scheduled to be received as follows at June 30:

	2009	2008
Amount receivable within one year	\$ 224,789	\$ 309,443
Amount receivable in 1 to 5 years	<u>370,000</u>	<u>595,000</u>
	594,789	904,443
Less discounts on sponsorships receivable	(15,322)	(46,876)
Less allowance for uncollectible contributions	<u>(57,566)</u>	<u>(39,133)</u>
 Sponsorships receivable, net	 <u>\$ 521,901</u>	 <u>\$ 818,434</u>

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable at June 30, 2009 and 2008 consist of first and second mortgages related to residences built by Habitat. The mortgages are provided to the buyers at no interest in accordance with Habitat's purpose. Mortgage loans receivable have a discounted balance of \$3,078,637 and \$2,820,783 at June 30, 2009 and 2008, respectively.

Beginning in 2008, Habitat began requiring second mortgages on residences. These mortgages are also non-interest bearing and scheduled payments are forgiven each time a payment is received on a first mortgage. The undiscounted balance on second mortgages was \$706,333 and \$380,208 at June 30, 2009 and 2008, respectively.

Prior to September 2007, the mortgage term was typically twenty years. In September 2007, the mortgage term was changed to twenty five years. Currently, management anticipates no significant collection problems. Non-interest bearing mortgages have been discounted at various rates ranging from 4.25% to 7.77% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the interest method over the lives of the mortgages. Maturities of the mortgage loans are as follows:

<u>Year ending June 30,</u>	
2010	\$ 286,222
2011	286,222
2012	286,222
2013	286,222
2014	286,222
Thereafter	<u>3,406,056</u>
Total maturities	4,837,166
Amounts representing imputed interest	<u>(1,758,529)</u>
	<u>\$ 3,078,637</u>

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 6 – LAND HELD FOR DEVELOPMENT

Land held for development consists of lots to be developed as residences at June 30, 2009 and 2008. Construction does not begin until a sponsor has committed to the project. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of building activities.

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2009	2008
Leasehold improvements	\$ 11,478	\$ 16,653
Computer equipment	25,134	27,061
Furniture and fixtures	15,051	24,210
Automobile	47,703	20,990
	99,366	88,914
Less accumulated depreciation	(46,418)	(46,663)
	\$ 52,948	\$ 42,251

NOTE 8 – LINES OF CREDIT

Habitat has a \$400,000 revolving line of credit available with a bank, which expires May 7, 2010. The revolving line of credit bears interest at a variable rate (3.25% and 3.00% at June 30, 2009 and 2008, respectively) and is secured by 14 specific mortgages. Outstanding borrowings under this line totaled \$348,466 and \$394,000 as of June 30, 2009 and 2008, respectively.

Habitat also has a \$350,000 revolving line of credit available with a bank, which expires February 10, 2011. The revolving line of credit bears interest at a variable rate (2.87% at June 30, 2009) and is secured by substantially all assets of Habitat. Outstanding borrowings under this line totaled \$57,500 as of June 30, 2009.

Habitat also has a \$25,000 revolving line of credit available with a bank, which expires July 21, 2009. The revolving line of credit bears interest at a variable rate (3.25% at June 30, 2009) and is unsecured. Outstanding borrowings under this line totaled \$7,023 as of June 30, 2009.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 9 – NOTES PAYABLE

Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments of \$1,583 through May 2039, secured by a non-interest bearing first mortgages held by Habitat, with a discounted value of \$223,083. The note payable has an undiscounted balance outstanding of \$499,111 at June 30, 2009. A discount rate of 7.77% (risk adjusted rate) was applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$239,527 has been recognized in 2009, 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 interest method over the respective terms of the notes. The unamortized discount at June 30, 2009 amounted to \$276,028.

\$ 223,083 \$ 56,732

Note payable to Tennessee Housing Development Agency, bearing interest at 4.00%, secured by certain real property held for development, maturing April 2010.

190,000 -

Note payable to bank, bearing interest at 0.00%, secured by inventory and accounts receivable, maturing February 2010.

86,850 -

Note payable to bank, bearing interest at 8.25%, secured by certain real property held for development, maturing July 2010.

 - 35,993

\$ 499,933 \$ 92,725

Year ending June 30,

2010	\$ 295,850
2011	19,000
2012	19,000
2013	19,000
2014	19,000
Thereafter	<u>404,111</u>
Total principal maturities	775,961
Amounts representing imputed interest	<u>(276,028)</u>
	<u>\$ 499,933</u>

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 10 – NET ASSETS

Temporarily restricted net assets are available for the construction of low-income housing in accordance with Habitat’s mission. Temporarily restricted net assets at June 30, 2009 and 2008 were as follows:

	2009	2008
Sponsorships receivable	\$ 521,901	\$ 818,434
Contributions, restricted	84,015	37,529
	\$ 605,916	\$ 855,963

NOTE 11 – LEASE COMMITMENTS

Habitat rents office space and a warehouse under an operating lease agreement. Rent expense amounted to \$135,734 and \$188,936 for the years ended June 30, 2009 and 2008. A summary of approximate future minimum payments under this lease as of June 30, 2009 and 2008 is as follows:

<u>Year ending June 30,</u>	
2010	\$ 138,182
2011	142,320
2012	121,550
	\$ 402,052

NOTE 12 – RELATED PARTY TRANSACTIONS

On occasion, Habitat purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors. Additionally, the Habitat receives sponsorships from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

In connection with the development of the Beasley, Good Neighbor, Natchez properties, Habitat has obtained letters of credit totaling \$166,000 at June 30, 2009, securing the completion of certain improvements. The letters of credit are a requirement for the local authorities’ approval of Habitat’s development of certain properties and are not directly needed for operations. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2009. The letters of credit expire at various dates during 2010.