

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

FINANCIAL STATEMENTS

June 30, 2012 and 2011

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. (a nonprofit organization) as of June 30, 2012 and 2011, 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, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

January 2, 2013

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
Assets		
Cash	\$ 259,265	\$ 557,273
Sponsorships receivable, net	252,866	382,804
Construction in progress	93,318	316,848
Land held for development	775,616	678,859
Non-interest bearing mortgage loans receivable, net of discount of \$4,244,109 and \$3,342,811, respectively	4,929,467	4,399,063
Property and equipment, net	380,561	50,399
Prepaid expenses and other	140,900	134,852
	\$ 6,831,993	\$ 6,520,098
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 67,234	\$ 16,953
Escrow accounts	56,177	51,278
Line of credit	250,000	250,000
Notes payable	2,096,616	1,490,768
Unearned revenue on second mortgage loans	940,384	959,139
	3,410,411	2,768,138
Net assets:		
Unrestricted	3,170,562	3,235,722
Temporarily restricted	251,020	516,238
	3,421,582	3,751,960
	\$ 6,831,993	\$ 6,520,098

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Transfers to homeowners	\$ 1,624,519	\$ -	\$ 1,624,519
Contributions	769,317	119,176	888,493
ReStore sales	671,355	-	671,355
Mortgage loan discount amortization	228,623	-	228,623
Special events	100,671	-	100,671
Other income	71,920	-	71,920
	<u>3,466,405</u>	<u>119,176</u>	<u>3,585,581</u>
Net assets released from restrictions	<u>384,394</u>	<u>(384,394)</u>	<u>-</u>
Total support and revenue	<u>3,850,799</u>	<u>(265,218)</u>	<u>3,585,581</u>
Expenses:			
Program services	3,453,551	-	3,453,551
Management and general	191,885	-	191,885
Fundraising	270,523	-	270,523
Total expenses	<u>3,915,959</u>	<u>-</u>	<u>3,915,959</u>
Change in net assets	(65,160)	(265,218)	(330,378)
Net assets at beginning of year	<u>3,235,722</u>	<u>516,238</u>	<u>3,751,960</u>
Net assets at end of year	<u>\$ 3,170,562</u>	<u>\$ 251,020</u>	<u>\$ 3,421,582</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 1,105,084	\$ 137,028	\$ 1,242,112
Transfers to homeowners	1,043,456	-	1,043,456
ReStore sales	728,541	-	728,541
Mortgage loan discount amortization	233,228	-	233,228
Special events	225,514	-	225,514
Other income	85,580	-	85,580
	<u>3,421,403</u>	<u>137,028</u>	<u>3,558,431</u>
Net assets released from restrictions	<u>114,093</u>	<u>(114,093)</u>	<u>-</u>
Total support and revenue	<u>3,535,496</u>	<u>22,935</u>	<u>3,558,431</u>
Expenses:			
Program services	2,679,338	-	2,679,338
Management and general	211,850	-	211,850
Fundraising	244,832	-	244,832
Total expenses	<u>3,136,020</u>	<u>-</u>	<u>3,136,020</u>
Change in net assets	399,476	22,935	422,411
Net assets at beginning of year	<u>2,836,246</u>	<u>493,303</u>	<u>3,329,549</u>
Net assets at end of year	<u>\$ 3,235,722</u>	<u>\$ 516,238</u>	<u>\$ 3,751,960</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (330,378)	\$ 422,411
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	18,486	20,552
Transfers to homeowners, net	(685,700)	(485,024)
Mortgage loan discount amortization	(228,623)	(233,228)
Loss on disposal of equipment	2,068	-
Notes payable discount	(184,424)	(409,264)
Changes in operating assets and liabilities:		
Sponsorships receivable, net	129,938	63,951
Land held for development	(96,757)	(525,574)
Construction in progress, net	223,530	(70,760)
Prepaid expenses and other	(6,048)	15,289
Accounts payable and accrued expenses	50,281	(167,818)
Escrow accounts	4,899	(999)
Net cash used in operating activities	<u>(1,102,728)</u>	<u>(1,370,464)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(350,716)	(29,129)
Mortgage payments received	365,164	490,088
Net cash provided by investing activities	<u>14,448</u>	<u>460,959</u>
Cash flows from financing activities:		
Payments on line of credit, net	-	(289,746)
Payments on notes payable	(545,528)	(148,967)
Proceeds from notes payable	1,335,800	1,229,000
Net cash provided by financing activities	<u>790,272</u>	<u>790,287</u>
Net decrease in cash and cash equivalents	(298,008)	(119,218)
Cash and cash equivalents at beginning of year	<u>557,273</u>	<u>676,491</u>
Cash and cash equivalents at end of year	<u>\$ 259,265</u>	<u>\$ 557,273</u>

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Services			Discounts on		Management and		Supporting Services	
	Construction	Family Services	ReStore	Mortgage Obligations	Total	General	Fundraising	Total	
Construction costs	\$ 1,770,820	\$ -	\$ -	\$ -	\$ 1,770,820	\$ -	\$ -	\$ -	
Mortgage discounts	-	-	-	951,706	951,706	-	-	-	
Salaries and related expenses	-	61,650	190,998	-	252,648	2,642	182,366	185,008	
Cost of sales	-	-	193,470	-	193,470	-	-	-	
Rent	-	4,992	151,630	-	156,622	-	11,951	11,951	
Interest	-	-	4,580	-	4,580	105,223	-	105,223	
Insurance	-	8,087	14,918	-	23,005	1,117	28,353	29,470	
Office expenses	-	3,405	20,781	-	24,186	4,363	18,090	22,453	
Utilities	-	929	38,544	-	39,473	145	1,924	2,069	
Tithes to Habitat for Humanity International, Inc.	-	-	-	-	-	31,682	-	31,682	
Bad debt expense	-	-	-	-	-	21,505	-	21,505	
Advertising and promotion	-	1,451	8,275	-	9,726	1,815	7,823	9,638	
Depreciation	-	-	755	-	755	17,731	-	17,731	
Special events	-	-	-	-	-	-	15,343	15,343	
Service charges and fees	-	2,476	9,896	-	12,372	202	-	202	
Miscellaneous	-	538	3,292	-	3,830	4,047	579	4,626	
Repairs and maintenance	-	1,407	5,542	-	6,949	1,380	45	1,425	
Travel and entertainment	-	1,438	1,971	-	3,409	33	4,049	4,082	
	\$ 1,770,820	\$ 86,373	\$ 644,652	\$ 951,706	\$ 3,453,551	\$ 191,885	\$ 270,523	\$ 462,408	

See accompanying notes.
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HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Program Services			Discounts on		Management and		Supporting Services		
	Construction	Family Services	ReStore	Mortgage Obligations	Total	General	Fundraising	Total	Total	
Construction costs	\$ 1,231,752	\$ -	\$ -	\$ -	\$ 1,231,752	\$ -	\$ -	\$ -	\$ 1,231,752	
Mortgage discounts	-	-	-	690,509	690,509	-	-	-	690,509	
Salaries and related expenses	-	63,413	202,245	-	265,658	45,378	120,944	166,322	431,980	
Cost of sales	-	-	214,996	-	214,996	-	-	-	214,996	
Rent	-	8,791	155,533	-	164,324	6,665	15,118	21,783	186,107	
Interest	-	-	80	-	80	89,657	-	89,657	89,737	
Special events	-	-	-	-	-	-	63,480	63,480	63,480	
Insurance	-	3,962	27,201	-	31,163	8,765	8,102	16,867	48,030	
Office expenses	-	1,891	17,644	-	19,535	3,953	15,675	19,628	39,163	
Utilities	-	1,032	19,506	-	20,538	981	1,732	2,713	23,251	
Tithes to Habitat for Humanity International, Inc.	-	-	-	-	-	22,500	-	22,500	22,500	
Depreciation	-	-	683	-	683	19,869	-	19,869	20,552	
Service charges and fees	-	2,571	11,994	-	14,565	3,819	559	4,378	18,943	
Repairs and maintenance	-	2,414	9,001	-	11,415	2,789	4,659	7,448	18,863	
Advertising and promotion	-	4,762	3,708	-	8,470	766	8,181	8,947	17,417	
Travel and entertainment	-	1,574	1,221	-	2,795	2,706	6,300	9,006	11,801	
Legal and professional	-	-	1,102	-	1,102	7,294	-	7,294	8,396	
Miscellaneous	-	46	1,607	-	1,653	4,938	82	5,020	6,673	
Contributions	-	-	100	-	100	-	-	-	100	
Bad debt expense (recovery)	-	-	-	-	-	(8,230)	-	(8,230)	(8,230)	
	\$ 1,231,752	\$ 90,456	\$ 666,621	\$ 690,509	\$ 2,679,338	\$ 211,850	\$ 244,832	\$ 456,682	\$ 3,136,020	

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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 qualified 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 paid back over 30 years. Mortgages closed after January 1, 2011 are paid back over 20 – 30 years, depending on the financial position of each respective family. 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.

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.

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.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 and 2011.

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

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.

Habitat operates the Habitat for Humanity ReStore (“ReStore”) in Franklin and Columbia, Tennessee, 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 occasionally purchases 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. The Columbia location was closed subsequent to June 30, 2012.

Contributions of assets other than cash are recorded at market value at the date of donation, except for ReStore donations. Since most ReStore donations are the result of overstocked, low demand, used or damaged items, the value of the donations is not readily determinable until the item is sold. Therefore, the ReStore inventory has been reasonably estimated as a percentage of lagging three-month sales.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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 \$70,000. 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 greater of the estimated fair market value of the home or its cost, 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, beginning five years after the initial transfer to the homeowner. 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 two years.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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 total costs incurred 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. Transfers to homeowners 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 two years.

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, 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 \$19,364 and \$17,417 and for the years ended June 30, 2012 and 2011, respectively.

Program Services

Program services include construction, ReStore operations, family support and educational ministries and the discounts on mortgage obligations. 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 \$136,217 and \$136,860 for the years ended June 30, 2012 and 2011, respectively.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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.

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 amounts 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 during the reporting period. 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.

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 follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance clarifying the accounting for uncertainty in income taxes recognized in an enterprise'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. There are no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2009 through June 30, 2012.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Habitat evaluated subsequent events through January 2, 2013, when these financial statements were available to be issued. Management 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 an material impact on the financial statements.

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

	<u>2012</u>	<u>2011</u>
Amount receivable within one year	\$ 265,142	\$ 404,784
Less allowance for uncollectible contributions	<u>(12,276)</u>	<u>(21,980)</u>
Sponsorships receivable, net	<u>\$ 252,866</u>	<u>\$ 382,804</u>

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable at June 30, 2012 and 2011 consist of first and second payable 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 \$4,929,467 and \$4,399,063 at June 30, 2012 and 2011, respectively.

Beginning in 2008, Habitat began requiring silent 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 \$1,702,674 and \$1,530,592 at June 30, 2012 and 2011, respectively.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 5 – MORTGAGE LOANS RECEIVABLE (Continued)

Currently, management anticipates no significant collection problems. Non-interest bearing mortgages have been discounted at various rates ranging from 4.25% to 7.81% 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>		
2013	\$	403,900
2014		403,900
2015		403,900
2016		403,900
2017		403,900
Thereafter		<u>7,154,076</u>
Total maturities		9,173,576
Amounts representing imputed interest		<u>(4,244,109)</u>
	\$	<u>4,929,467</u>

NOTE 6 – LAND HELD FOR DEVELOPMENT

Land held for development consists of lots to be developed as residences at June 30, 2012 and 2011. 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:

	<u>2012</u>	<u>2011</u>
Land	\$ 99,000	\$ -
Office building	205,484	-
Leasehold improvements	43,085	11,478
Computer equipment	16,651	14,504
Furniture and fixtures	21,034	21,937
Automobile	<u>78,936</u>	<u>77,936</u>
	464,190	125,855
Less accumulated depreciation	<u>(83,629)</u>	<u>(75,456)</u>
	<u>\$ 380,561</u>	<u>\$ 50,399</u>

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 8 – LINE OF CREDIT

Habitat had a \$250,000 revolving line of credit with a bank. The revolving line of credit bears interest at a variable rate (2.85% at June 30, 2012 and 2011) and is secured by 14 specific mortgages. The line of credit, which was renewed January 2012, allows borrowings up to \$289,500 and expires January 2013. Outstanding borrowings under this line totaled \$250,000 as of June 30, 2012 and 2011, respectively.

NOTE 9 – NOTES PAYABLE

	2012	2011
<p>Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in monthly principal installments of \$5,950 through January 2042, secured by twenty non-interest bearing first mortgages held by Habitat, with a discounted value of \$907,045. The note payable has an undiscounted balance outstanding of \$1,932,247 at June 30, 2012. A discount rate of 7.5% (risk adjusted rate) was applied to arrive at net present value of the notes payable at issuance. Contribution revenue of \$195,078 has been recognized in 2012, 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, 2012 amounted to \$1,025,201.</p>	\$ 907,046	\$ 659,313
<p>Note payable to Habitat for Humanity International, Inc., bearing interest at 5.5%. The note requires quarterly payments of \$14,734 and matures June 2017. The note is secured by sixteen non-interest bearing first mortgages held by Habitat. This note was paid in-full during fiscal year 2012 through the issuance of a new loan.</p>	-	299,455
<p>Note payable to Habitat for Humanity International, Inc., bearing interest at 4.5%. The note requires quarterly payments of \$14,022 and matures December 2018. The note is secured by fifteen non-interest bearing first mortgages held by Habitat.</p>	314,582	-

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 9 – NOTES PAYABLE (Continued)

<p>Note payable to The Housing Fund, Inc., bearing interest at 3.25%. The note requires monthly interest only payments with all principal and interest due on May 18, 2014. The note is secured by nineteen lots held for development. In addition, the note requires a payment of \$38,000 at the time of closing for lot numbers four through seventeen developed and sold.</p>	380,000	532,000
<p>Note payable to bank for office building, bearing interest at 4.75%. The note requires monthly payments of \$1,514 and matures February 2027, with a payment of approximately \$144,000 due at maturity. The note is secured by the office building.</p>	262,144	-
<p>Note payable to bank, bearing interest at 3.25%. The note requires monthly interest only payments with all principal and interest due on August 2014. The note is secured by thirteen lots held for development.</p>	<u>232,844</u>	<u>-</u>
	<u>\$ 2,096,616</u>	<u>\$ 1,490,768</u>

<p>Year ending <u>June 30,</u></p>	
2013	\$ 387,875
2014	390,127
2015	202,482
2016	127,332
2017	129,911
Thereafter	<u>1,884,090</u>
Total principal maturities	3,121,817
Amounts representing imputed interest	<u>(1,025,201)</u>
	<u>\$ 2,096,616</u>

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

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, 2012 and 2011 were as follows:

	2012	2011
Sponsorships receivable	\$ 151,844	\$ 382,804
Contributions, restricted	99,176	133,434
	\$ 251,020	\$ 516,238

NOTE 11 – LEASE COMMITMENTS

Habitat rents warehouse space and other equipment under non-cancellable operating lease agreements. Rent expense amounted to \$168,573 and \$186,107 (\$16,800 recognized as an in-kind contribution) for the years ended June 30, 2012 and 2011, respectively. A summary of approximate future minimum payments under this lease as of June 30, 2012 is as follows:

Year ending June 30,		
2013	\$	111,348
2014		89,505
2015		92,215
2016		94,957
2017		97,790
Thereafter		177,930
	\$	663,745

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, Habitat receives sponsorships from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

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

Supplemental Cash Flow Information

	<u>2012</u>	<u>2011</u>
Interest paid	\$ 40,156	\$ 31,801

Supplemental Schedule of Non-Cash Investing and Financing Activities

Issuance of non-interest bearing mortgage loans	\$ 435,000	\$ 697,000
Discount on non-interest bearing mortgage loans	<u>(195,889)</u>	<u>(410,823)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 239,111</u>	<u>\$ 286,177</u>