

**HABITAT FOR HUMANITY  
OF GREATER NASHVILLE**

**FINANCIAL STATEMENTS**

**June 30, 2014**

**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

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of Habitat for Humanity of Greater Nashville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Greater Nashville's internal control over financial reporting and compliance.

*Frasier, Dan & Hand, PLLC*

September 18, 2014  
Nashville, Tennessee

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2014**

**Assets**

|  |                                 |
|--|---------------------------------|
| Cash and cash equivalents, including escrow accounts<br>of \$527,233 | \$ 1,955,252                    |
| Grants receivable  | 529,803                         |
| Sponsor and other receivables  | 171,284                         |
| Contributions receivable, net  | 158,538                         |
| Real estate held for sale  | 312,690                         |
| Construction-in-progress - rehabilitation                            | 1,471,234                       |
| Construction-in-progress - new homes                                 | 531,342                         |
| Property and equipment, net  | 502,768                         |
| Land held for development  | 4,054,311                       |
| Mortgage notes receivable, net of discounts<br>of \$18,899,097       | 24,718,023                      |
| New Markets Tax Credit ("NMTC") intangible assets, net               | 56,617                          |
| NMTC joint venture investment  | 1,456,067                       |
| NMTC joint venture cash  | 107,660                         |
| Other assets   | <u>899,326</u>                  |
| <br>Total assets   | <br><u><u>\$ 36,924,915</u></u> |

**Liabilities and Net Assets**

|                                       |                                 |
|---------------------------------------|---------------------------------|
| Accounts payable and accrued expenses | \$ 279,309                      |
| Deferred revenue                      | 1,563,987                       |
| Escrow accounts                       | 558,463                         |
| Notes payable                         | 14,134,215                      |
| NMTC joint venture note payable       | 1,880,000                       |
| Unearned revenue on mortgage loans    | <u>5,264,321</u>                |
| <br>Total liabilities                 | <br><u>23,680,295</u>           |
| Net assets:                           |                                 |
| Unrestricted                          | 4,069,753                       |
| Temporarily restricted                | <u>9,174,867</u>                |
| <br>Total net assets                  | <br><u>13,244,620</u>           |
| <br>Total liabilities and net assets  | <br><u><u>\$ 36,924,915</u></u> |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

|                                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>         |
|---------------------------------------|---------------------|-----------------------------------|----------------------|
| Support and revenue:                  |                     |                                   |                      |
| Transfers to homeowners               | \$ 5,634,091        | \$ -                              | \$ 5,634,091         |
| Cash contributions                    | 2,405,832           | -                                 | 2,405,832            |
| Grant income                          | 1,299,517           | 664,245                           | 1,963,762            |
| ReStore sales                         | 1,820,840           | -                                 | 1,820,840            |
| THDA interest contribution            | -                   | 1,008,886                         | 1,008,886            |
| Mortgage loan discount amortization   | 675,477             | -                                 | 675,477              |
| In-kind contributions                 | 364,637             | -                                 | 364,637              |
| Other income                          | 220,095             | -                                 | 220,095              |
| NMTC investment income                | 39,115              | -                                 | 39,115               |
| Interest income                       | 2,925               | -                                 | 2,925                |
|                                       | <u>12,462,529</u>   | <u>1,673,131</u>                  | <u>14,135,660</u>    |
| Net assets released from restrictions | <u>1,452,170</u>    | <u>(1,452,170)</u>                | <u>-</u>             |
| Total support and revenue             | <u>13,914,699</u>   | <u>220,961</u>                    | <u>14,135,660</u>    |
| Expenses:                             |                     |                                   |                      |
| Program services                      | 11,769,500          | -                                 | 11,769,500           |
| Supporting services                   | 1,833,366           | -                                 | 1,833,366            |
| Total expenses                        | <u>13,602,866</u>   | <u>-</u>                          | <u>13,602,866</u>    |
| Change in net assets                  | 311,833             | 220,961                           | 532,794              |
| Net assets at beginning of year       | <u>3,757,920</u>    | <u>8,953,906</u>                  | <u>12,711,826</u>    |
| Net assets at end of year             | <u>\$ 4,069,753</u> | <u>\$ 9,174,867</u>               | <u>\$ 13,244,620</u> |

See accompanying notes.

**HABITAT FOR HUMANITY OF GREATER NASHVILLE**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2014**

|  |              |
|--|--------------|
| Cash flows from operating activities:  |              |
| Change in net assets   | \$ 532,794   |
| Adjustments to reconcile change in net assets<br>to net cash used in operating activities: |              |
| Non-cash grants  | (473,080)    |
| Non-cash construction costs  | 1,086,399    |
| THDA interest contribution   | (1,008,886)  |
| Contribution of real property and equipment  | (15,750)     |
| Transfers to homeowners  | (3,101,582)  |
| Depreciation and amortization  | 143,830      |
| Net gain on disposal of property   | (79,624)     |
| Mortgage loan discount amortization  | (675,477)    |
| Amortization of discount on notes payable  | 466,054      |
| NMTC investment income allocation  | (39,115)     |
| Changes in operating assets and liabilities:   |              |
| Grants receivable  | (72,024)     |
| Sponsor and other receivables  | (10,258)     |
| Construction-in-progress   | 213,324      |
| Land held for development  | (446,394)    |
| NMTC joint venture cash  | 19,304       |
| Other assets   | 2,175        |
| Accounts payable and accrued expenses  | (187,183)    |
| Deferred revenue   | (26,584)     |
| Escrow accounts  | 116,595      |
|  | <hr/>        |
| Net cash used in operating activities  | (3,555,482)  |
|  | <hr/>        |
| Cash flows from investing activities:  |              |
| Improvements to real estate held for sale  | (125,828)    |
| Purchases of property and equipment  | (40,309)     |
| Proceeds from disposal of property   | 159,809      |
| Mortgage payments received   | 1,553,235    |
| NMTC joint venture investment distribution   | 14,302       |
|  | <hr/>        |
| Net cash provided by investing activities  | 1,561,209    |
|  | <hr/>        |
| Cash flows from financing activities:  |              |
| Proceeds from issuance of notes payable  | 2,556,961    |
| Repayments on notes payable  | (1,545,794)  |
|  | <hr/>        |
| Net cash provided by financing activities  | 1,011,167    |
|  | <hr/>        |
| Net decrease in cash and cash equivalents  | (983,106)    |
|  | <hr/>        |
| Cash and cash equivalents at beginning of year   | 2,938,358    |
|  | <hr/>        |
| Cash and cash equivalents at end of year   | \$ 1,955,252 |
|  | <hr/> <hr/>  |

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<br>and<br>Educational<br>Ministries | Discounts on<br>Mortgage<br>Obligations | ReStore<br>Operations | Total                | Fund<br>Raising     | Management<br>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<br>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**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**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.

**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**

**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 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.

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 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 and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

For purposes of the statement 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**

**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 at June 30, 2014. Amounts received through The Housing Fund, Inc. totaled \$925,328 at June 30, 2014 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 held 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**

**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 homes transferred, which have an average cost of \$114,345 for the year ended June 30, 2014.

**Advertising**

Advertising costs are charged to expense as incurred. Advertising expense totaled \$14,810 for the year ended June 30, 2014.

**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.

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

**NOTE 3 – GRANTS RECEIVABLE**

A summary of grants receivable as of June 30, 2014 is as follows:

|                        |                   |
|------------------------|-------------------|
| Federal Home Loan Bank | \$ 395,750        |
| Foundations and other  | <u>134,053</u>    |
|                        | <u>\$ 529,803</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, 2014:

|  |                   |
|--|-------------------|
| Amount receivable within one year              | \$ 79,338         |
| Amount receivable in 1 to 5 years              | <u>79,200</u>     |
|  | 158,538           |
| Less allowance for uncollectible contributions | <u>-</u>          |
| Contributions receivable, net                  | <u>\$ 158,538</u> |

**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, costs accumulated under this agreement totaled \$1,471,234, including capitalized interest on related debt of \$11,859.

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> |

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

**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> |
| <br>   |               |                    |
| 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, 2014 is as follows:

|                               |                   |
|-------------------------------|-------------------|
| Buildings                     | \$ 249,720        |
| Office equipment              | 220,216           |
| Leasehold improvements        | 221,978           |
| Vehicles and trailers         | 280,310           |
| Other                         | <u>216,750</u>    |
|                               | 1,188,974         |
| Less accumulated depreciation | <u>(686,206)</u>  |
|                               | <u>\$ 502,768</u> |

**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, 2014:

|                |                     |
|----------------|---------------------|
| Park Preserve  | \$ 3,183,234        |
| Hallmark       | 707,004             |
| Dickson County | 67,796              |
| Edison Park    | 51,318              |
| Wilson County  | 35,459              |
| Other          | <u>9,500</u>        |
|                | <u>\$ 4,054,311</u> |

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

**NOTE 9 – MORTGAGE NOTES RECEIVABLE**

At June 30, 2014, Habitat holds mortgage notes receivable totaling \$43,617,120 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, 2014:

|                           |                      |
|---------------------------|----------------------|
| First mortgages           | \$ 32,627,098        |
| Second mortgages          | 9,601,490            |
| Third mortgages           | <u>1,388,532</u>     |
|                           | 43,617,120           |
| Less unamortized discount | <u>(18,899,097)</u>  |
|                           | <u>\$ 24,718,023</u> |

In previous years, Habitat sold non-interest bearing mortgage notes receivable to a financial institution. At June 30, 2014, the total principal balance of sold mortgages was \$955,179. 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.

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<br>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> |

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

**NOTE 9 – MORTGAGE NOTES RECEIVABLE (Continued)**

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

|                               |                      |
|-------------------------------|----------------------|
| 31-60 days past due           | \$ -                 |
| 61-90 days past due           | 390,804              |
| Greater than 90 days past due | <u>315,936</u>       |
| Total past due                | 706,740              |
| Current                       | <u>42,910,380</u>    |
|                               | <u>\$ 43,617,120</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.

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

|  |                  |
|--|------------------|
| Qualified active low income community<br>business (“QALICB”) guarantor fee | \$ 44,136        |
| NMTC closing costs   | <u>27,151</u>    |
|  | 71,287           |
| Accumulated NMTC amortization  | <u>(14,670)</u>  |
| NMTC intangible assets, net  | <u>\$ 56,617</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.



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

**NOTE 11 – NEW MARKETS TAX CREDIT JOINT VENTURE INVESTMENT (Continued)**

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, 2014 is as follows:

|                        |                         |
|------------------------|-------------------------|
| Beginning balance      | \$ 1,431,254            |
| Capital contributed    | -                       |
| Distributions received | (14,302)                |
| Share of income        | <u>39,115</u>           |
| <br>Ending balance     | <br><u>\$ 1,456,067</u> |

**NOTE 12 – NOTES PAYABLE**

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. 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 has been recognized in 2014 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 amounted to \$8,838,583. \$ 10,494,748

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

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

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

**NOTE 12 – NOTES PAYABLE (Continued)**

|  |                      |
|--|----------------------|
| Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from \$211 to \$3,125 through June 2019.                       | 597,044              |
| 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              |
| 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              |
| 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              |
| Note payable to bank secured by equipment, bearing interest at 4.5%, payable in monthly installments of \$696, maturing February 2016.   | 13,387               |
| Note payable to bank secured by equipment, bearing interest at 4.75%, payable in monthly installments of \$522, maturing November 2015.  | 8,559                |
| Note payable to bank secured by certain real property, non-interest bearing, payable in monthly installments of \$146, maturing April 2015.                                    | <u>1,417</u>         |
|  | <u>\$ 14,134,215</u> |

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

**NOTE 12 – NOTES PAYABLE (Continued)**

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> |

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

**NOTE 14 – NEW MARKETS TAX CREDIT JOINT VENTURE – NOTE PAYABLE**  
**(Continued)**

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.

**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, 2014:

|                               |                     |
|-------------------------------|---------------------|
| THDA unamortized discount     | \$ 8,838,583        |
| Donor restricted contribution | 326,151             |
| Contributions receivable, net | <u>10,133</u>       |
|                               | <u>\$ 9,174,867</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 totaled \$110,676.

**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 at June 30, 2014 securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2014. 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 for the year ended June 30, 2014.

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

**NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)**

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.

**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 year ended June 30, 2014:

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

During the year ended June 30, 2014, approximately 7,000 individuals contributed significant amounts of time to Habitat’s activities. The financial statements do not reflect the value of these services because they do not meet the recognition criteria 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.

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

**NOTE 19 – THE HOUSING FUND, INC. COMMUNITY DEVELOPMENT BLOCK GRANT  
(Continued)**

Balances related to the agreement in the accompanying financial statements are as follows at June 30, 2014:

|   |              |
|---|--------------|
| Grants receivable                         | \$ 132,589   |
| Construction-in-progress - rehabilitation | \$ 1,471,234 |
| Deferred revenue                          | \$ 925,328   |
| Notes payable                             | \$ 638,795   |
| 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.

**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**

|               |                  |
|---------------|------------------|
| Interest paid | <u>\$ 39,095</u> |
|---------------|------------------|

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

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

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

**NOTE 22 – RELATED PARTIES**

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

Habitat receives voluntary cash contributions, house sponsorship funding, in-kind contributions, 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 year ended June 30, 2014, Habitat contributed \$69,220 to Habitat International. At June 30, 2014 the accompanying statement of financial position included title payable to Habitat International of \$23,479.

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 year ended June 30, 2014, Habitat received \$9,115 of SHOP funds. At June 30, 2014, the balances of the loans totaled \$597,044.

**SUPPLEMENTAL INFORMATION**



**HABITAT FOR HUMANITY OF GREATER NASHVILLE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2014**

| <u>Federal Grantor</u>   | <u>Program Name</u>                                       | <u>CFDA<br/>Number</u> | <u>Receivable<br/>June 30, 2013</u> | <u>Cash<br/>Receipts</u> | <u>Expenditures</u> | <u>Receivable<br/>June 30, 2014</u> |
|--|---|------------------------|-------------------------------------|--------------------------|---------------------|-------------------------------------|
| <b>U.S. Department of Housing and Urban Development</b>        |   |                        |                                     |                          |                     |                                     |
| <i>Passed through Habitat for Humanity International, Inc.</i> |   |                        |                                     |                          |                     |                                     |
|  | Self-Help Homeownership Opportunity Program               | 14.247                 | \$ -                                | \$ 9,115                 | \$ 9,115            | \$ -                                |
| <i>Passed through The Housing Fund, Inc.</i>                   |   |                        |                                     |                          |                     |                                     |
|  | Community Development Block Grants/<br>Entitlement Grants | 14.218+                | -                                   | 1,839,455                | 1,972,044           | 132,589                             |
| Total U.S. Department of Housing and Urban Development         |   |                        | -                                   | 1,848,570                | 1,981,159           | 132,589                             |
| Total federal awards   |   |                        | \$ -                                | \$ 1,848,570             | \$ 1,981,159        | \$ 132,589                          |

+ Indicates a major program

**NOTE 1 - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors of  
Habitat for Humanity of Greater Nashville  
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Greater Nashville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Greater Nashville's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Greater Nashville's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Greater Nashville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Frasin, Owen & Hand, PLLC*

September 18, 2014  
Nashville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

The Board of Directors of  
Habitat for Humanity of Greater Nashville  
Nashville, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited Habitat for Humanity of Greater Nashville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity of Greater Nashville's major federal programs for the year ended June 30, 2014. Habitat for Humanity of Greater Nashville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity of Greater Nashville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of Greater Nashville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity of Greater Nashville's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, Habitat for Humanity of Greater Nashville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Habitat for Humanity of Greater Nashville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity of Greater Nashville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Greater Nashville's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Frasier, Dan + Hand, PLLC*

September 18, 2014  
Nashville, Tennessee

**HABITAT FOR HUMANITY OF GREATER NASHVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements:**

|   |            |                            |  |
|---|------------|----------------------------|--|
| Type of auditor's report issued:                      | Unmodified |                            |  |
| Internal control over financial reporting:            |            |                            |  |
| Material weakness(es) identified?                     | _____ Yes  | <u>  x  </u> No            |  |
| Significant deficiency(ies) identified?               | _____ Yes  | <u>  x  </u> None reported |  |
| Noncompliance material to financial statements noted? | _____ Yes  | <u>  x  </u> No            |  |

**Federal Awards:**

|  |            |                            |  |
|--|------------|----------------------------|--|
| Internal control over major programs:  |            |                            |  |
| Material weakness(es) identified?  | _____ Yes  | <u>  x  </u> No            |  |
| Significant deficiency(ies) identified?  | _____ Yes  | <u>  x  </u> None reported |  |
| Type of auditor's report issued on compliance for major programs:  | Unmodified |                            |  |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | _____ Yes  | <u>  x  </u> No            |  |

Programs tested as major programs were:

|                           |   |
|---------------------------|---|
| <b><u>CFDA Number</u></b> | <b><u>Name of Federal Program or Cluster</u></b>          |
| 14.218                    | Community Development Block Grants/<br>Entitlement Grants |

|  |                  |          |  |
|--|------------------|----------|--|
| Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000       |          |  |
| Auditee qualified as low-risk auditee?                                   | <u>  x  </u> Yes | _____ No |  |

**HABITAT FOR HUMANITY OF GREATER NASHVILLE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
For the Year Ended June 30, 2014**

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

NONE

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

NONE