

**RUTHERFORD COUNTY
HABITAT FOR HUMANITY, INC.
MURFREESBORO, TENNESSEE**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2006 AND 2005

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

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DEMPSEY VANTREASE & FOLLIS PLLC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rutherford County Habitat for Humanity, Inc.
Murfreesboro, Tennessee

We have audited the accompanying statements of financial position of Rutherford County Habitat for Humanity, Inc. as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Rutherford County Habitat for Humanity, Inc. as of June 30, 2006 and 2005, and the change 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.

Dempsey Vantrease & Follis PLLC

September 28, 2006
Murfreesboro, Tennessee

Certified Public Accountants & Consultants

Information Technology & Network Systems Consulting

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RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 245,137	\$ 126,008
Warehouse inventory	1,649	1,185
Prepaid insurance	5,809	6,369
Construction in process/lots held	396,815	407,896
Current portion of mortgages	103,329	102,809
Total current assets	752,739	644,267
PROPERTY AND EQUIPMENT, net	994,039	805,026
OTHER ASSETS		
Mortgages receivable-long term portion	822,269	760,530
Other assets	685	2,000
Total other assets	822,954	762,530
TOTAL ASSETS	<u>\$ 2,569,732</u>	<u>\$ 2,211,823</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long term debt	\$ 40,000	\$ 20,000
Line of credit	42,324	-
Accounts payable	18,165	42,042
Accrued payroll and related items	3,664	2,030
Escrow funds held	24,077	25,363
Accrued expenses	6,451	2,797
Total current liabilities	134,681	92,232
LONG TERM DEBT, less current maturities	926,349	726,629
NET ASSETS		
Unrestricted	1,505,088	1,389,392
Temporarily Restricted	3,614	3,570
	1,508,702	1,392,962
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,569,732</u>	<u>\$ 2,211,823</u>

See accompanying notes on the financial statements.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30,

	2006	2005
SUPPORT AND REVENUE:		
Grants/contributions	\$ 361,828	\$ 271,520
Transfers to homeowners	304,787	398,779
Mortgage discount amortization	46,268	39,764
Contributions of land/materials/labor	26,716	16,055
Interest income	2,944	1,441
Income from special events	25,000	35,921
Restore income	161,260	71,984
Other income	24,079	25,386
Total Unrestricted Support and Revenue	952,882	860,850
Net assets released from donor restrictions	-	100,000
TOTAL SUPPORT AND REVENUE	952,882	960,850
EXPENSES:		
Program services	733,126	728,467
Fundraising	49,212	37,009
General and administrative	54,848	53,732
TOTAL EXPENSES	837,186	819,208
INCREASE IN UNRESTRICTED NET ASSETS	115,696	141,642
TEMPORARILY RESTRICTED NET ASSETS		
Grants and contributions	44	3,570
Net assets released from donor restrictions	-	(100,000)
INCREASE(DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	44	(96,430)
CHANGE IN NET ASSETS	115,740	45,212
NET ASSETS AT BEGINNING OF YEAR	1,392,962	1,347,750
NET ASSETS AT END OF YEAR	\$ 1,508,702	\$ 1,392,962

See accompanying notes to the financial statements.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30,

	2006				2005			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Transfers to homeowners	\$ 326,888	\$ -	\$ -	\$ 326,888	\$ 391,891	\$ -	\$ -	\$ 391,891
Mortgage discount	119,418	-	-	119,418	193,103	-	-	193,103
Tithes/contributions	4,547	-	-	4,547	2,021	-	-	2,021
Tools	4,140	-	-	4,140	3,522	-	-	3,522
Payroll and related costs	129,683	37,528	13,538	180,749	65,081	33,820	11,959	110,860
Contract labor	14,249	-	-	14,249	160	-	-	160
Training	2,802	-	-	2,802	2,343	-	-	2,343
Advertising	2,441	-	-	2,441	1,360	-	-	1,360
Accounting/Legal	-	-	3,104	3,104	-	-	2,750	2,750
Bank charges	-	-	1,962	1,962	-	-	812	812
Depreciation	14,627	2,000	5,540	22,167	2,772	-	690	3,462
Dues and fees	2,317	-	698	3,015	2,219	-	739	2,958
Insurance	14,542	2,638	2,638	19,818	10,872	-	7,105	17,977
Interest	43,881	960	7,118	51,959	-	-	-	-
Meetings and travel	10,580	-	-	10,580	7,753	-	-	7,753
Miscellaneous	13,064	-	1,264	14,328	603	-	2,347	2,950
Printing	1,684	1,684	1,005	4,373	1,500	1,500	879	3,879
Office supplies	2,000	3,500	7,248	12,748	1,000	1,689	4,493	7,182
PO Box rental and postage	3,009	-	-	3,009	1,500	-	1,511	3,011
Restore expense	10,905	-	-	10,905	36,167	-	-	36,167
Rent	-	-	-	-	-	-	16,328	16,328
Repair and maintenance	-	-	4,461	4,461	-	-	412	412
HFHI Vista cost share	1,545	-	-	1,545	2,200	-	-	2,200
Utilities	7,903	527	2,107	10,537	-	-	-	-
Telephone	2,901	375	4,165	7,441	2,400	-	3,707	6,107
TOTAL EXPENSES	\$ 733,126	\$ 49,212	\$ 54,848	\$ 837,186	\$ 728,467	\$ 37,009	\$ 53,732	\$ 819,208

See accompanying notes to financial statements.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30,

	2006	2005
Cash flows from operating activities:		
Changes in net assets	\$ 115,740	\$ 45,212
Depreciation	22,167	3,462
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Increase in warehouse inventory	(464)	(143)
Decrease(Increase) in prepaid insurance	560	(5,832)
Decrease(Increase) in construction in process/lots held	11,081	(38,418)
Increase in mortgages receivable	(62,259)	(109,765)
Decrease in deposits	1,315	-
(Decrease)Increase in accounts payable	(23,877)	11,571
Increase in accrued payroll and related items	1,634	129
(Decrease)Increase in escrow liability	(1,286)	684
Increase in accrued expenses	3,654	2,270
Net cash provided by (used in) operating activities	68,265	(90,830)
Cash flows from investing activities:		
Purchase of property and equipment	(211,180)	(776,108)
Net cash used in investing activities	(211,180)	(776,108)
Cash flows from financing activities:		
Borrowing/repayment on line of credit	42,324	-
Principal paid on long term debt	(20,000)	-
Borrowing on long term debt	239,720	746,629
Net cash provided by financing activities	262,044	746,629
Net increase (decrease) in cash and cash equivalents	119,129	(120,309)
Cash and cash equivalents at beginning of year	126,008	246,317
Cash and cash equivalents at end of year	\$ 245,137	\$ 126,008
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 51,959	\$ -
Interest capitalized as construction interest	\$ -	\$ 7,410

See accompanying notes to the financial statements.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – ORGANIZATION AND PURPOSE

Rutherford County Habitat for Humanity, Inc. is a not-for-profit organization, chartered by the State of Tennessee, and is an affiliate of Habitat for Humanity International headquartered in Americus, Georgia. The purpose of the Organization is to provide simple, decent, affordable homes for sale to low income families. Homes are sold at no profit and financed with non-interest bearing mortgages. The Organization also operates a Restore which receives donated used building materials and appliances and then resells them to the general public.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of Services and Materials

Contributed materials used for home building are reflected as contributions in the financial statements at their estimated values at the date of receipt. No amounts have been reflected in the statements for contributed services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have contributed significant amounts of their time in the organization's program services.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. The building is depreciated using the straight-line method over an estimated life of thirty nine years. The remaining assets are depreciated using the straight-line method over a three to seven year estimated life.

Restore Materials

Consistent with policies used by other Habitat agencies, used materials donated to the Restore are not valued in inventory since they are deemed to have no determinable value until sold.

Transfers to Homeowners

Transfers to homeowners include material costs, allocated administrative expenses and other amounts associated with properties that were transferred to homeowners during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of Credit Risk

The Organization's credit risk relates to cash and cash equivalents. The Organization maintains several bank accounts at one bank. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash at this institution exceeded federally insured limits. The amount of the excess of the FDIC limit totaled \$163,301 as of June 30, 2006.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE C– CASH EQUIVALENTS/RESTRICTED CASH

Habitat held \$21,508 and \$56,680 at June 30, 2006 and 2005, respectively, in a money market cash funds. Habitat also held \$29,694 and \$27,185 at June 30, 2006 and 2005, respectively, in a separate escrow account used to pay for homeowner property taxes and insurance.

NOTE D– MORTGAGES RECEIVABLE

Rutherford County Habitat for Humanity, Inc. sells homes to qualifying families and provides an interest free twenty year mortgage. The qualifying families are required to contribute "sweat equity" during the construction phase and then they qualify to purchase the home. Mortgage payments net of insurance and taxes, are applied to reduce the mortgage.

RUTHERFORD COUNTY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE D-- MORTGAGES RECEIVABLE (CONTINUED)

Mortgage receivable are summarized as follows:

		6/30/06	6/30/05
Homes - Lease Purchase	2	\$ 115,221	\$ 49,596
Homes with Mortgages	52	1,704,185	1,634,401
Total	54	1,819,406	1,683,997
Less unamortized discount		(893,808)	(820,658)
		<u>\$ 925,598</u>	<u>\$ 863,339</u>

The discount is computed using rates varying from 7.95% to 8.5% based upon the original amount of the note. Habitat also holds a second mortgage on each home that is not reflected above. This mortgage represents the difference between market value and purchase price of the home. This mortgage would only be collected if the family sold the property. Habitat holds a right of first refusal on each property.

NOTE E-- PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	6/30/06	6/30/05
Vehicles	\$ 7,300	\$ 7,300
Office furniture and equipment	15,442	11,064
Building	774,368	567,566
	797,110	585,930
Less accumulated depreciation	30,306	8,139
	766,804	577,791
Land	227,235	227,235
	<u>\$ 994,039</u>	<u>\$ 805,026</u>

NOTE F-- TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat voluntarily remits a portion of its cash contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$4,000 and \$2,000 to Habitat International for the years ended June 30, 2006 and 2005, respectively. These amounts are included in Program Services expense in the Statements of Activities.