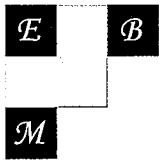


**RUTHERFORD COUNTY AREA  
HABITAT FOR HUMANITY, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2008 AND 2007**

**RUTHERFORD COUNTY AREA  
HABITAT FOR HUMANITY, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2008 AND 2007**

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*Edmondson, Betzler & Montgomery, PLLC*  
(Certified Public Accountants)

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Rutherford County Area Habitat for Humanity, Inc.

We have audited the accompanying statement of financial position of Rutherford County Area Habitat for Humanity, Inc., as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements as of June 30, 2007, were audited by other auditors whose report dated November 12, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 statement is 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 audit provides 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 Area Habitat for Humanity, Inc., as of June 30, 2008, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Edmondson, Betzler & Montgomery, PLLC*

August 11, 2008

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30,**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 213,140	\$ 260,915
Warehouse inventory	5,706	5,101
Prepaid insurance	5,494	5,494
Construction in process/lots held	819,938	457,624
Current portion of mortgages	<u>126,675</u>	<u>124,692</u>
Total current assets	<u>1,170,953</u>	<u>853,826</u>
Property and equipment, net	1,045,056	1,051,176
<b>OTHER ASSETS</b>		
Mortgages receivable - long-term portion	903,496	931,687
Other assets	<u>1,048</u>	<u>1,028</u>
Total other assets	<u>904,544</u>	<u>932,715</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,120,553</u></u>	<u><u>\$ 2,837,717</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 42,196	\$ 46,895
Note payable to bank - line-of-credit	433,077	221,306
Accounts payable	21,690	34,454
Accrued payroll and related items	2,540	2,498
Escrow funds held	26,021	28,776
Accrued expenses	<u>21,551</u>	<u>12,423</u>
Total current liabilities	<u>547,075</u>	<u>346,352</u>
<b>LONG-TERM DEBT, less current portion</b>		
Mortgage note payable	846,349	886,349
Note payable to bank	-	54,885
Note payable to THDA	<u>47,249</u>	<u>49,444</u>
Total long-term debt	<u>893,598</u>	<u>990,678</u>
<b>NET ASSETS</b>		
Unrestricted	1,636,189	1,412,026
Temporarily restricted	<u>43,691</u>	<u>88,661</u>
Total net assets	<u>1,679,880</u>	<u>1,500,687</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,120,553</u></u>	<u><u>\$ 2,837,717</u></u>

The accompanying notes are an integral part of these financial statements.

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30,**

	<u>2008</u>	<u>2007</u>
<b>SUPPORT AND REVENUE:</b>		
Grants/contributions	\$ 491,030	\$ 204,654
Transfers to homeowners	256,421	445,879
Mortgage discount amortization	109,063	65,503
Contributions of land, materials, labor	38,259	41,254
Interest income	4,023	5,865
Income from special events	30,056	26,197
Restore income	352,548	279,190
Other income	27,238	32,730
Net assets released from restrictions	<u>85,000</u>	<u>-</u>
Total unrestricted support and revenue	<u>1,393,638</u>	<u>1,101,272</u>
<b>EXPENSES:</b>		
Program services	1,019,368	1,073,828
Fundraising	68,531	52,019
General and administrative	<u>81,576</u>	<u>68,487</u>
Total expenses	<u>1,169,475</u>	<u>1,194,334</u>
CHANGE IN UNRESTRICTED NET ASSETS	224,163	(93,062)
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Grants and contributions	40,000	85,000
Interest income	30	47
Net assets released from restrictions	<u>(85,000)</u>	<u>-</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(44,970)</u>	<u>85,047</u>
CHANGES IN NET ASSETS	179,193	(8,015)
NET ASSETS, BEGINNING OF YEAR	<u>1,500,687</u>	<u>1,508,702</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,679,880</u></u>	<u><u>\$ 1,500,687</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30,

	2008				2007			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Transfers to homeowners	\$ 404,810	\$ -	\$ -	\$ 404,810	\$ 502,768	\$ -	\$ -	\$ 502,768
Mortgage discount	147,158	-	-	147,158	236,904	-	-	236,904
Tithes and contributions	5,025	-	-	5,025	6,000	-	-	6,000
Tools	4,918	-	-	4,918	3,981	-	-	3,981
Payroll and related costs	226,028	37,708	28,455	292,191	180,849	30,171	22,767	233,787
Payroll service expenses	9,116	1,521	1,147	11,784	-	-	-	-
Contract labor	9,589	-	-	9,589	10,079	-	-	10,079
Training	2,140	-	-	2,140	3,120	-	-	3,120
Advertising	1,856	-	-	1,856	1,719	-	-	1,719
Accounting and legal	-	-	-	-	-	-	-	-
Bank charges	-	-	6,250	6,250	-	-	5,410	5,410
Depreciation	18,072	-	3,399	3,399	-	-	4,793	4,793
Dues and fees	3,471	2,917	7,291	28,280	15,844	2,557	6,392	24,793
Insurance	13,749	8,250	700	4,171	2,946	-	698	3,644
Interest	55,232	9,884	5,499	27,498	8,363	5,018	3,345	16,726
Meetings and travel	9,721	-	10,338	75,454	43,409	7,768	8,124	59,301
Miscellaneous	4,150	-	-	9,721	7,589	-	-	7,589
Printing	1,561	-	910	5,060	6,764	-	4,193	10,957
Office supplies	1,488	1,602	946	4,109	1,947	1,998	1,179	5,124
PO Box rental and postage	2,880	2,623	7,300	11,411	1,145	2,018	5,615	8,778
Restore expense	68,951	-	-	2,880	2,829	-	-	2,829
Repair and maintenance	1,305	-	5,132	68,951	23,668	-	-	23,668
HFHI Vista cost share	5,658	-	-	6,437	-	-	3,369	3,369
Utilities	17,220	3,082	3,223	5,658	9,173	1,642	1,717	12,532
Telephone	5,270	944	986	23,525	4,731	847	885	6,463
				7,200				
Total expenses	\$ 1,019,368	\$ 68,531	\$ 81,576	\$ 1,169,475	\$ 1,073,828	\$ 52,019	\$ 68,487	\$ 1,194,334

The accompanying notes are an integral part of these financial statements.

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30,**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 179,193	\$ (8,015)
Depreciation	28,280	24,793
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase in warehouse inventory	(605)	(3,452)
Decrease in prepaid insurance	-	315
Increase in construction in process/lost held	(362,314)	(60,809)
Decrease (Increase) in mortgages receivable	26,208	(130,782)
Increase in other assets	(20)	(343)
(Decrease) increase in accounts payable	(12,764)	16,290
(Decrease) increase in escrow liability	(2,755)	4,699
Increase in accrued expenses	9,170	4,807
	<u>(135,607)</u>	<u>(152,497)</u>
<b>Net cash used in operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(22,160)</u>	<u>(81,931)</u>
<b>Net cash used in investing activities</b>	<u>(22,160)</u>	<u>(81,931)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on line-of-credit	211,771	178,982
Principal paid on long-term debt	(135,983)	(41,885)
Borrowing on long-term debt	<u>34,204</u>	<u>113,109</u>
<b>Net cash provided by financing activities</b>	<u>109,992</u>	<u>250,206</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(47,775)	15,778
<b>Cash and cash equivalents, beginning of year</b>	<u>260,915</u>	<u>245,137</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 213,140</u></u>	<u><u>\$ 260,915</u></u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	<u><u>\$ 75,454</u></u>	<u><u>\$ 58,612</u></u>

The accompanying notes are an integral part of these financial statements.

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Rutherford County Area 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 are 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.

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, temporarily restricted, and permanently restricted net assets.

Contributions

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 AREA HABITAT FOR HUMANITY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 1 - NATURE OF ORGANIZATION AND 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 amount 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 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, lot costs and other direct costs 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 AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 1 - NATURE OF ORGANIZATION AND 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 approximately \$21,000 as of June 30, 2008.

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 2 - CASH EQUIVALENTS/RESTRICTED CASH**

Habitat held \$41,697 and \$40,335 at June 30, 2008 and 2007, respectively, in a separate escrow account used to pay for homeowner property taxes and insurance.

**NOTE 3 - MORTGAGES RECEIVABLE**

Rutherford County Area 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 AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 3 - MORTGAGES RECEIVABLE (CONTINUED)**

Mortgage receivable are summarized as follows:

		<b>2008</b>	<b>2007</b>
Homes – Lease Purchase	1	\$ 55,251	\$ 112,841
Homes with mortgages	<u>61</u>	<u>2,078,224</u>	<u>2,008,745</u>
Total	<u>62</u>	2,133,475	2,121,586
Less unamortized discount		<u>(1,103,304)</u>	<u>(1,065,207)</u>
		<u>\$ 1,030,171</u>	<u>\$ 1,056,379</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 4 - PROPERTY AND EQUIPMENT**

Property and equipment is as follows:

	<b>2008</b>	<b>2007</b>
Vehicles	\$ 7,300	\$ 7,300
Office furniture and equipment	25,552	21,814
Building	<u>868,347</u>	<u>849,925</u>
	901,199	879,039
Less accumulated depreciation	<u>83,378</u>	<u>55,098</u>
	817,821	823,941
Land	<u>227,235</u>	<u>227,235</u>
	<u>\$ 1,045,056</u>	<u>\$ 1,051,176</u>

**NOTE 5 - 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 \$5,000 and \$6,000 to Habitat International for the years ended June 30, 2008 and 2007, respectively.

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 6 - RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets of \$3,691 at June 30, 2008 and \$3,661 at June 30, 2007 are available for scholarships. At June 30, 2008, Habitat also had \$40,000 of contributions received that were restricted for the construction of homes.

**NOTE 7 - LINE OF CREDIT**

The Organization has a line-of-credit with a bank for \$375,000. The line is secured by the mortgage notes receivables and money market accounts and matures November 15, 2009. The interest rate on the line at June 30, 2008 was 4.75%. The unused portion at June 30, 2008 is \$343.

The Organization has a second line of credit with a bank for \$100,000. The line is secured by a negative pledge agreement on all assets of the Organization and matures May 22, 2009. The interest rate on the line at June 30, 2009 was 4.75%. The unused portion at June 30, 2008 is \$41,580.

**NOTE 8 - LONG TERM DEBT**

Long term debt is composed of the following:

	<u><b>2008</b></u>	<u><b>2007</b></u>
Note payable to bank; fixed interest rate of 5.25%; semi-annual principal payments of \$20,000 beginning may 15, 2006 with the note maturing November 15, 2009. The Organization expects to refinance the note at that time. The note is secured by pledges of homeowner mortgages.	\$ 886,349	\$ 926,349
Loan payable to Tenn. Dev. Housing Agency, original amount \$53,529, non-interest bearing payable in monthly payments of \$183 for 25 years. Secured by deed of trust on a note receivable in the original amount of \$55,000.	49,445	51,645
Matured notes	<u>-</u>	<u>59,579</u>
	<u><b>\$ 935,794</b></u>	<u><b>\$ 1,037,573</b></u>

**RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**NOTE 8 - LONG TERM DEBT (CONTINUED)**

Aggregate maturities of long-term debt are as follows:

Year ending June 30,

2009	\$ 42,196
2010	848,545
2011	2,196
2012	2,196
2013	2,196
Thereafter	<u>38,465</u>
	<u>\$ 935,794</u>

**NOTE 9 - 401K PLAN**

The Organization has a 401k plan that covers all eligible employees who have reached age 21 and have completed one year of service. Participating employees may contribute up to 96% of compensation to the plan, subject to IRS limits. The Organization makes a discretionary matching contribution determined annually. For the year ending June 30, 2008, participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2008, matching contributions were \$1,089.