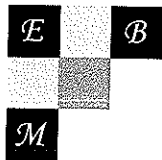


**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2010 AND 2009**

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2010 AND 2009**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6 – 12



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 statements of financial position of Rutherford County Area Habitat for Humanity, Inc., as of June 30, 2010 and 2009, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rutherford County Area Habitat for Humanity, Inc., as of June 30, 2010 and 2009, 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.

Edmondson, Betzler & Montgomery, PLLC

August 20, 2010

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 195,963	\$ 275,775
Grants/accounts receivable	9,231	85,823
Warehouse inventory	20,780	3,891
Prepaid expenses	27,935	5,494
Construction in process/lots held	658,890	722,661
Contributions receivable currently due, net	44,443	-
Current portion of mortgages	<u>148,740</u>	<u>137,811</u>
Total current assets	<u>1,105,982</u>	<u>1,231,455</u>
Property and equipment, net	<u>1,005,052</u>	<u>1,023,783</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	952,381	950,835
Non-current contributions receivable, net	67,543	-
Other assets	<u>4,592</u>	<u>7,171</u>
Total other assets	<u>1,024,516</u>	<u>958,006</u>
TOTAL ASSETS	<u><u>\$ 3,135,550</u></u>	<u><u>\$ 3,213,244</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 55,577	\$ 55,024
Note payable to bank - line-of-credit	218,442	355,671
Accounts payable	47,871	3,500
SHOP Grant payable	29,130	41,507
Escrow funds held	44,589	22,076
Other accrued expenses	<u>13,902</u>	<u>23,665</u>
Total current liabilities	<u>409,511</u>	<u>501,443</u>
LONG-TERM DEBT, less current portion		
Mortgage note payable	<u>1,044,237</u>	<u>1,099,594</u>
NET ASSETS		
Unrestricted	1,502,549	1,608,516
Temporarily restricted	<u>179,253</u>	<u>3,691</u>
Total net assets	<u>1,681,802</u>	<u>1,612,207</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,135,550</u></u>	<u><u>\$ 3,213,244</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, 2010 AND 2009

	2010	2009
SUPPORT AND REVENUE:		
Grants/contributions	\$ 485,394	\$ 565,866
Transfers to homeowners	695,521	753,825
Mortgage discount amortization	74,846	69,595
Contributions of land, materials, labor	37,048	148,442
Interest income	558	833
Income from special events	-	24,908
Restore income	307,790	307,407
Other income	2,550	8,311
Net assets released from restrictions	<u>424</u>	<u>40,000</u>
Total unrestricted support and revenue	<u>1,604,131</u>	<u>1,919,187</u>
EXPENSES:		
Program services	1,440,127	1,664,606
Fundraising	189,015	72,517
General and administrative	<u>80,956</u>	<u>88,167</u>
Total expenses	<u>1,710,098</u>	<u>1,825,290</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(105,967)</u>	<u>93,897</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	175,986	-
Interest income	-	-
Net assets released from restrictions	<u>(424)</u>	<u>(40,000)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>175,562</u>	<u>(40,000)</u>
CHANGES IN NET ASSETS	69,595	53,897
NET ASSETS, BEGINNING OF YEAR	<u>1,612,207</u>	<u>1,558,310</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,681,802</u></u>	<u><u>\$ 1,612,207</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, 2010 AND 2009

	2010			2009		
	Program	Fundraising	General and Administrative	Program	Fundraising	General and Administrative
Construction materials and supplies	\$ 757,158	-	-	\$ 953,785	-	-
Payroll and related costs	294,367	49,109	37,058	267,518	44,630	33,678
Mortgage discount	172,243	-	-	213,764	-	-
Professional fundraising expenses	-	115,985	-	-	-	-
Restore expense	48,550	-	-	63,264	-	-
Insurance	19,304	11,583	7,720	22,206	13,324	8,881
Depreciation and amortization	19,753	3,188	7,969	19,903	3,212	8,029
Interest	16,232	2,905	3,038	23,242	4,159	4,350
Utilities	14,333	2,565	2,882	16,399	2,935	3,069
Tools	18,012	-	-	12,610	-	-
Contract labor	12,553	-	-	2,589	-	-
Tithes and contributions	12,500	-	-	10,000	-	6,975
Community events	11,204	-	-	-	-	-
Repair and maintenance	7,987	-	-	-	-	-
Printing	9,501	-	3,180	3,551	-	1,449
Office supplies	1,172	-	-	8,482	-	8,482
Accounting and legal	-	2,065	5,746	1,171	2,063	5,742
Telephone	6,128	-	8,500	-	-	8,000
PO Box rental and postage	4,980	1,098	1,146	6,189	1,109	1,158
Payroll service expenses	3,100	517	390	4,373	-	4,373
Miscellaneous	1,130	-	2,321	6,505	1,085	819
Dues and fees	2,326	-	600	7,924	-	4,750
Meetings and travel	2,584	-	-	1,775	-	630
Training	2,253	-	-	2,920	-	-
HFHI Vista cost share	1,500	-	-	8,503	-	-
Advertising	1,257	-	-	1,659	-	-
Bank charges	-	-	-	6,274	-	-
			606			637
Total expenses	\$ 1,440,127	\$ 189,015	\$ 80,956	\$ 1,664,606	\$ 72,517	\$ 88,167
			\$ 1,710,098			\$ 1,825,290

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, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 69,595	\$ 53,897
Depreciation and amortization	30,910	31,144
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts restricted for long-term purposes	(175,986)	-
(Increase) decrease in warehouse inventory	(16,889)	1,815
Decrease (increase) in grants/accounts receivable	76,592	(85,823)
Decrease (increase) in construction in process/lost held	63,771	(24,293)
(Increase) decrease in mortgages receivable	(12,475)	(105,903)
Increase in prepaid and other expenses	(21,393)	-
Increase in accounts payable	44,371	3,500
(Decrease) increase in SHOP Grant payable	(12,377)	19,817
Increase (decrease) in escrow liability	22,513	(3,945)
Decrease in accrued expenses	(9,763)	(426)
Net cash provided by (used in) operating activities	<u>58,869</u>	<u>(110,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,648)	(8,340)
Payment of loan closing costs	<u>-</u>	<u>(7,654)</u>
Net cash used in investing activities	<u>(10,648)</u>	<u>(15,994)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on line-of-credit	(137,229)	(77,406)
Principal paid on long-term debt	(54,804)	(931,652)
Borrowing on long-term debt	-	1,197,904
Gifts restricted for long-term purposes	<u>64,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(128,033)</u>	<u>188,846</u>
Net increase (decrease) in cash and cash equivalents	(79,812)	62,635
Cash and cash equivalents, beginning of year	<u>275,775</u>	<u>213,140</u>
Cash and cash equivalents, end of year	<u>\$ 195,963</u>	<u>\$ 275,775</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 22,175</u>	<u>\$ 31,751</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, 2010 AND 2009

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, 2010 AND 2009

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, 2010 AND 2009

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 two banks. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at one of these institutions exceeds federally insured limits from time to time.

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.

Events Occurring After Reporting Date

Rutherford County Area Habitat for Humanity, Inc. has evaluated events and transactions that occurred between June 30, 2010 and August 20, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH EQUIVALENTS/RESTRICTED CASH

Habitat held \$34,182 and \$33,379 June 30, 2010 and 2009, 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 interest free mortgages ranging from twenty to thirty years. 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, 2010 AND 2009

NOTE 3 - MORTGAGES RECEIVABLE (CONTINUED)

Mortgages receivable are summarized as follows:

		2010	2009
Homes with mortgages	68	\$ 2,445,991	\$ 2,336,119
Less unamortized discount		<u>(1,344,870)</u>	<u>(1,247,473)</u>
		<u>\$ 1,101,121</u>	<u>\$ 1,088,646</u>

The discount is computed using rates varying from 7.77% 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 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2010 are summarized as follows:

Corporate donors	\$ 119,000
Less discounts to net present value	<u>(7,014)</u>
	<u>\$ 111,986</u>

The net amounts are classified in the statements of financial position as follows:

Current portion	\$ 44,443
Non-current portion	<u>67,543</u>
Total	<u>\$ 111,986</u>

The current portion represents the face value of contributions collectible within the next fiscal year. The non-current portion represents the present value of amounts due after one year. The non-current portion was discounted using a 3.25% annual interest rate to estimate present value. This rate is used in all subsequent periods to update the estimated present value of this pledge as follows:

Due in one to five years	<u>\$ 111,986</u>
--------------------------	-------------------

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2010	2009
Vehicles	\$ 7,300	\$ 7,300
Office furniture and equipment	44,542	33,893
Building	<u>868,347</u>	<u>868,347</u>
	920,189	909,540
Less accumulated depreciation	<u>142,372</u>	<u>112,992</u>
	777,817	796,548
Land	<u>227,235</u>	<u>227,235</u>
	<u>\$ 1,005,052</u>	<u>\$ 1,023,783</u>

NOTE 6 - 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 \$12,500 and \$10,000 to Habitat International for the years ended June 30, 2010 and 2009, respectively.

NOTE 7 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets of each June 30 are available for the following purposes:

	2010	2009
Scholarships	\$ 3,267	\$ 3,691
Sponsorship – October 2010 build	64,000	-
Building Rutherford Campaign	<u>111,986</u>	<u>-</u>
	<u>\$ 179,253</u>	<u>\$ 3,691</u>

NOTE 8 - 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, 2010 was 3%. The unused portion at June 30, 2010 is \$156,558.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 9 - LONG TERM DEBT

Long term debt is composed of the following:

	2010	2009
Note payable to bank; fixed interest rate of 1%; monthly payments of principal and interest of \$5,527 through maturity date of August 11, 2013. The note is secured by real estate.	\$ 1,099,814	\$ 1,154,618
Less current portion	<u>55,577</u>	<u>55,024</u>
	<u>\$ 1,044,237</u>	<u>\$ 1,099,594</u>

Aggregate maturities of long-term debt are as follows:

Year ending June 30,

2010	\$ 55,577
2011	56,135
2012	56,699
2014	<u>931,403</u>
	<u>\$ 1,099,814</u>

NOTE 10 - 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, 2010 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2010 and 2009 matching contributions were \$3,640 and \$2,973, respectively.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 11 - CONTINGENCY

During the year, the Organization sold five first mortgages to Tennessee Housing Development Agency (THDA) for \$353,641. The Organization continues to service these mortgages, collecting principal and escrow payments from the homeowners in exchange for a nominal monthly fee that is withheld from monthly mortgage payments submitted to THDA. The Organization guarantees payment of the mortgages to THDA for the homeowners. In the event the homeowner defaults on their mortgage, THDA assigns the deed of trust back to the Organization, who would then be able to initiate foreclosure proceedings. Twelve mortgages totaling \$738,146 are serviced under this arrangement.

NOTE 12 - COMMITMENT

The Organization has entered into a fundraising campaign commitment with a company who is providing guidance during its *Building Rutherford* campaign. As part of this agreement, the Organization has committed to a fee of \$148,000 payable monthly through October 2010. At June 30, 2010 \$77,700 remains to be paid under this commitment.