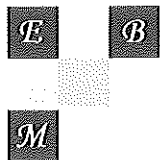


**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2013 AND 2012**

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7 – 14



Edmondson, Betzler & Montgomery, PLLC

(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rutherford County Area Habitat for Humanity, Inc. which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years 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 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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, 2013 and 2012, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Edmondson, Betyer & Montgomery, PLLC

October 22, 2013

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 464,990	\$ 209,114
Accounts receivable	12,982	16,959
Warehouse inventory	71,390	58,107
Construction in process/lots held	804,007	667,555
Contributions receivable currently due, net	51,235	87,707
Current portion of mortgages	<u>170,058</u>	<u>170,661</u>
Total current assets	<u>1,574,662</u>	<u>1,210,103</u>
Property and equipment, net	<u>937,985</u>	<u>951,952</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	1,096,823	1,014,876
Non-current contributions receivable, net	29,348	73,473
Other assets	<u>3,348</u>	<u>1,531</u>
Total other assets	<u>1,129,519</u>	<u>1,089,880</u>
TOTAL ASSETS	<u><u>\$ 3,642,166</u></u>	<u><u>\$ 3,251,935</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 62,757	\$ 56,699
Lines of credit	169,089	84,349
Note payable - THDA	100,000	100,000
Accounts payable	8,876	15,701
SHOP Grant payable	-	3,467
Escrow funds held	75,949	65,489
Other accrued expenses	<u>7,842</u>	<u>8,734</u>
Total current liabilities	<u>424,513</u>	<u>334,439</u>
LONG-TERM DEBT, less current portion		
Mortgage note payable	<u>867,681</u>	<u>931,885</u>
NET ASSETS		
Unrestricted	2,239,389	1,824,431
Temporarily restricted	<u>110,583</u>	<u>161,180</u>
Total net assets	<u>2,349,972</u>	<u>1,985,611</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,642,166</u></u>	<u><u>\$ 3,251,935</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, 2013 AND 2012

	2013	2012
SUPPORT AND REVENUE:		
Grants/contributions	\$ 555,436	\$ 462,798
Transfers to homeowners	507,951	584,940
Mortgage discount amortization	96,157	79,012
Contributions of land, materials, labor	86,151	96,083
Interest income	344	251
ReStore income	553,150	516,806
Other income	26,100	29,796
Net assets released from restrictions	<u>90,597</u>	<u>69,587</u>
 Total unrestricted support and revenue	 <u>1,915,886</u>	 <u>1,839,273</u>
 EXPENSES:		
Program services:		
Construction	909,573	1,151,441
ReStore	421,240	405,516
Fundraising	61,777	63,864
General and administrative	<u>108,338</u>	<u>109,087</u>
 Total expenses	 <u>1,500,928</u>	 <u>1,729,908</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>414,958</u>	 <u>109,365</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	40,000	55,451
Net assets released from restrictions	<u>(90,597)</u>	<u>(69,587)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>(50,597)</u>	 <u>(14,136)</u>
 CHANGES IN NET ASSETS	 364,361	 95,229
 NET ASSETS, BEGINNING OF YEAR	 <u>1,985,611</u>	 <u>1,890,382</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 2,349,972</u></u>	 <u><u>\$ 1,985,611</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, 2013 AND 2012

	2013					2012				
	Program		General and			Program		General and		
	Construction	ReStore	Fundraising	Administrative	Total	Construction	ReStore	Fundraising	Administrative	Total
Construction materials and supplies	\$ 494,691	\$ -	\$ -	\$ -	\$ 494,691	\$ 692,649	\$ -	\$ -	\$ -	\$ 692,649
Payroll and related costs	178,740	178,180	56,200	42,859	455,979	215,396	153,749	58,457	41,661	469,263
ReStore costs of sales	-	167,978	-	-	167,978	-	168,080	-	-	168,080
Mortgage discount	150,209	-	-	-	150,209	150,252	-	-	-	150,252
Insurance	27,731	13,258	1,848	3,216	46,053	25,427	13,032	1,700	3,023	43,182
Depreciation and amortization	4,182	23,370	1,596	2,778	31,926	4,106	22,941	1,567	2,726	31,340
Utilities	2,464	13,800	942	1,640	18,846	2,809	15,696	1,072	1,866	21,443
Interest	2,322	12,975	886	1,542	17,725	2,799	15,642	1,068	1,860	21,369
Office supplies	2,148	1,412	-	7,051	10,611	5,392	2,783	-	12,447	20,622
Tools	21,130	-	-	-	21,130	17,103	-	-	-	17,103
Contract labor	400	215	-	9,722	10,337	-	-	-	11,966	11,966
Accounting and legal	-	-	-	10,200	10,200	-	-	-	9,950	9,950
Telephone	341	2,043	-	1,161	3,545	1,295	7,342	-	1,290	9,927
Repair and maintenance	80	5,656	-	12,175	17,911	290	3,944	-	5,638	9,872
Miscellaneous	3,728	1,061	-	587	5,376	4,538	481	-	2,455	7,474
Community events	9,323	-	-	-	9,323	7,145	300	-	-	7,445
Dues and fees	858	-	305	6,517	7,680	1,554	545	-	4,540	6,639
Training	3,326	360	-	-	3,686	6,001	350	-	114	6,465
Meetings and travel	1,146	273	-	1,376	2,795	4,003	117	-	2,118	6,238
Tithes and contributions	6,000	-	-	-	6,000	6,119	-	-	-	6,119
Advertising	-	-	-	-	-	3,430	-	-	1,200	4,630
Printing	664	467	-	3,371	4,502	451	457	-	2,854	3,762
PO Box rental and postage	90	-	-	1,913	2,003	682	57	-	1,727	2,466
Bank charges	-	192	-	2,230	2,422	-	-	-	1,652	1,652
Total expenses	\$ 909,573	\$ 421,240	\$ 61,777	\$ 108,338	\$ 1,500,928	\$ 1,151,441	\$ 405,516	\$ 63,864	\$ 109,087	\$ 1,729,908

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 364,361	\$ 95,229
Depreciation and amortization	31,926	31,340
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gifts restricted for long-term purposes	(40,000)	(55,451)
In kind donation of building lot	(18,900)	-
Increase in warehouse inventory	(13,283)	(27,808)
(Increase) decrease in grants/accounts receivable	3,977	(10,805)
(Increase) decrease in construction in process/lost held	(117,552)	101,240
Increase in mortgages receivable	(81,344)	(66,953)
Increase (decrease) in accounts payable	(6,825)	7,987
Decrease in SHOP Grant payable	(3,467)	(14,575)
Increase in escrow liability	10,460	15,016
Increase (decrease) in accrued expenses	(892)	3,447
	<u>128,461</u>	<u>78,667</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,252)	(999)
Payment of loan closing costs	(3,524)	-
	<u>(19,776)</u>	<u>(999)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on line-of-credit	84,740	(44,092)
Principal paid on long-term debt	(58,146)	(55,925)
Gifts restricted for long-term purposes	120,597	69,587
	<u>147,191</u>	<u>(30,430)</u>
Net cash provided by (used in) financing activities		
Net increase in cash and cash equivalents	255,876	47,238
Cash and cash equivalents, beginning of year	<u>209,114</u>	<u>161,876</u>
Cash and cash equivalents, end of year	<u>\$ 464,990</u>	<u>\$ 209,114</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 17,725</u>	<u>\$ 21,369</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, 2013 AND 2012

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

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The financial statements have been prepared in accordance with standards of accounting and financial reporting under ASC 958, *Not for Profit Entities*. 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, 2013 AND 2012

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, 2013 AND 2012

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, 2012 and October 22, 2013, 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 \$75,977 and \$66,257 June 30, 2013 and 2012, 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, 2013 AND 2012

NOTE 3 - MORTGAGES RECEIVABLE (CONTINUED)

Mortgages receivable are summarized as follows:

		2013	2012
Homes with mortgages	77	\$ 2,708,807	\$ 2,573,410
Less unamortized discount		<u>(1,441,926)</u>	<u>(1,387,873)</u>
		<u>\$ 1,266,881</u>	<u>\$ 1,185,537</u>

The discount is computed using rates varying from 7.39% 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.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable that the Organization will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Based on this standard, management has concluded that none of its loans are impaired.

The Organization makes mortgage loans in accordance with its stated mission. As such, the Organization has credit exposure in the residential real estate market. No provision for mortgage loan losses has been made.

Credit Quality Indicators

Credit risk profile by internally assigned grade (excluding unamortized discount):

Pass	\$2,418,282
Special mention	97,051
Substandard	<u>193,474</u>
	<u>\$ 2,708,807</u>

Age Analysis of Past Due Loans (excluding unamortized discount):

30 – 59 days past due	\$ 218,326
60 – 90 days past due	76,202
91 – 120 days past due	20,849
Over 120 days past due	193,474
Current	<u>2,199,956</u>
	<u>\$ 2,708,807</u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2013 are summarized as follows:

Corporate donors	\$ 82,033
Less discounts to net present value	<u>(1,450)</u>
	<u>\$ 80,583</u>

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

Current portion	\$ 51,235
Non-current portion	<u>29,348</u>
Total	<u>\$ 80,583</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>\$ 29,348</u>
--------------------------	------------------

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2013	2012
Vehicles	\$ 7,300	\$ 7,300
Office furniture and equipment	67,044	50,792
Building	<u>868,347</u>	<u>868,347</u>
	942,691	926,439
Less accumulated depreciation	<u>231,941</u>	<u>201,722</u>
	710,750	724,717
Land	<u>227,235</u>	<u>227,235</u>
	<u>\$ 937,985</u>	<u>\$ 951,952</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 \$6,000 and \$6,119 to Habitat International for the years ended June 30, 2013 and 2012, respectively.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

	2013	2012
Building Rutherford Campaign	\$ 80,583	\$ 161,180
Home sponsorship	<u>30,000</u>	<u>-</u>
	<u>\$ 110,583</u>	<u>\$ 161,180</u>

NOTE 8 - LINES OF CREDIT

The Organization has two lines-of-credit with two banks for \$375,000 and \$100,000, respectively. The first line is secured by the mortgage notes receivables and money market accounts and matures November 15, 2013. The interest rate on the line at June 30, 2013 was 3%. The unused portion at June 30, 2013 is \$269,991. The second line is unsecured, used for ReStore inventory purchases, and matures September 6, 2013. The interest rate on the line at June 30, 2013 was 6.25%. The unused portion at June 30, 2013 is \$35,920.

NOTE 9 - NOTE PAYABLE

The Organization borrowed \$100,000 from Tennessee Housing Development Agency in May 2013. The note is secured by a deed of trust on certain real property in Rutherford County, Tennessee. The note matures in May 2014, at which time principal and interest is due. Interest on the note is payable at 3%.

NOTE 10 - LONG TERM DEBT

Long term debt is composed of the following:

	2013	2012
Note payable to bank; fixed interest rate of 0%; monthly payments of \$5,230 through maturity date of April 23, 2018. The note is secured by real estate.	\$ 930,438	\$ 988,584
Less current portion	<u>62,757</u>	<u>56,699</u>
	<u>\$ 867,681</u>	<u>\$ 931,885</u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 10 - LONG TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt are as follows:

Year ending June 30,

2014	\$ 62,757
2015	62,757
2016	62,757
2017	62,757
2018	679,410
	<u>\$ 930,438</u>

NOTE 11 - 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, 2013 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2013 and 2012 matching contributions were \$5,717 and \$6,487, respectively.

NOTE 12 - RELATED PARTIES

During the year, the Organization purchased building materials and services from companies owned by board members. Purchases from these companies totaled \$34,144. One company also made in-kind contributions of building materials which have been included in these financial statements.

NOTE 13 - CONTINGENCY

During the year, the Organization sold three first mortgages to Tennessee Housing Development Agency (THDA) for \$65,200. 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. Eighteen mortgages totaling \$1,049,994 are serviced under this arrangement.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 13 - CONTINGENCY (CONTINUED)

Due to the Organization's continued involvement with the sold receivables as a servicer of the mortgages, Habitat management has further considered the servicing asset obtained by the Organization in accordance with ASC 860, *Transfers and Servicing*. Habitat management does not believe that the servicing asset resulting from the sale of mortgages has material value. Accordingly, no servicing assets have been recognized in the accompanying financial statements at June 30, 2013 and 2012.