

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2016 AND 2015**

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S 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



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of Rutherford County Area Habitat for Humanity, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, 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 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 statements. 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In my 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, 2016 and 2015, and the changes 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.

Tim Montgomery, CPA PLLC

Murfreesboro, Tennessee
October 26, 2016

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 523,131	\$ 479,083
Accounts receivable	3,878	5,469
Warehouse inventory	17,042	17,809
Construction in process/lots held	595,334	702,395
Contributions receivable currently due, net	-	30,000
Current portion of mortgages	201,273	190,729
Total current assets	<u>1,340,658</u>	<u>1,425,485</u>
Property and equipment, net	<u>1,073,534</u>	<u>1,109,076</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	1,436,005	1,190,808
Other assets	<u>1,233</u>	<u>1,938</u>
Total other assets	<u>1,437,238</u>	<u>1,192,746</u>
TOTAL ASSETS	<u><u>\$ 3,851,430</u></u>	<u><u>\$ 3,727,307</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 62,757	\$ 62,757
Lines of credit	272,200	300,683
Accounts payable	6,214	25,119
Escrow funds held	5,330	19,335
Other accrued expenses	<u>10,185</u>	<u>10,264</u>
Total current liabilities	<u>356,686</u>	<u>418,158</u>
LONG-TERM LIABILITIES		
Note payable	100,000	-
Long-term debt, less current portion of mortgage note payable	<u>675,704</u>	<u>738,464</u>
Total long-term liabilities	<u>775,704</u>	<u>738,464</u>
Total liabilities	<u>1,132,390</u>	<u>1,156,622</u>
NET ASSETS		
Unrestricted	2,594,621	2,516,516
Temporarily restricted	<u>124,419</u>	<u>54,169</u>
Total net assets	<u>2,719,040</u>	<u>2,570,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,851,430</u></u>	<u><u>\$ 3,727,307</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, 2016 AND 2015

	2016	2015
SUPPORT AND REVENUE:		
Grants/contributions	\$ 469,530	\$ 365,170
Transfers to homeowners	891,397	767,181
Mortgage discount amortization	109,819	101,727
Contributions of land, materials, labor	57,344	144,931
Interest income	511	445
ReStore income	413,657	385,124
Other income	43,118	64,474
Net assets released from restrictions	<u>30,000</u>	<u>82,970</u>
 Total unrestricted support and revenue	 <u>2,015,376</u>	 <u>1,912,022</u>
 EXPENSES:		
Program services:		
Construction	1,423,890	1,279,136
ReStore	284,067	278,035
Fundraising	90,628	78,291
General and administrative	<u>138,686</u>	<u>140,948</u>
 Total expenses	 <u>1,937,271</u>	 <u>1,776,410</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>78,105</u>	 <u>135,612</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	100,250	30,000
Net assets released from restrictions	<u>(30,000)</u>	<u>(82,970)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>70,250</u>	 <u>(52,970)</u>
 CHANGES IN NET ASSETS	 148,355	 82,642
 NET ASSETS, BEGINNING OF YEAR	 <u>2,570,685</u>	 <u>2,488,043</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 2,719,040</u></u>	 <u><u>\$ 2,570,685</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, 2016 AND 2015

	2016					2015				
	Program		General and Administrative			Program		General and Administrative		
	Construction	ReStore	Fundraising		Total	Construction	ReStore	Fundraising		Total
Construction materials and supplies	\$ 748,075	\$ -	\$ -	\$ -	\$ 748,075	\$ 730,422	\$ -	\$ -	\$ -	\$ 730,422
Payroll and related costs	239,677	139,065	77,508	57,624	513,874	219,731	115,717	70,726	68,434	474,608
Mortgage discount	342,173	-	-	-	342,173	240,153	-	-	-	240,153
ReStore costs of sales	-	65,134	-	-	65,134	-	86,642	-	-	86,642
Insurance	29,567	16,326	-	5,018	50,911	24,600	14,350	820	1,230	41,000
Depreciation and amortization	8,493	31,127	-	3,931	43,551	5,440	30,398	2,076	3,613	41,527
Utilities	3,357	18,756	1,281	2,229	25,623	3,467	19,374	1,323	2,303	26,467
Habitat International tithes and contributions	8,000	-	-	15,000	23,000	8,000	-	-	10,000	18,000
Office supplies	124	1,800	2,601	16,497	21,022	88	-	-	18,019	18,107
Interest	1,975	11,037	754	1,312	15,078	1,947	10,878	743	1,293	14,861
Tools	12,024	-	-	-	12,024	8,377	-	-	-	8,377
Contract labor	-	-	-	11,497	11,497	-	-	-	11,540	11,540
Miscellaneous	11,437	-	-	-	11,437	11,944	-	-	-	11,944
Community events	1,112	-	7,952	30	9,094	6,810	-	2,603	-	9,413
Dues and fees	1,192	520	45	6,822	8,579	542	-	-	5,663	6,205
Repair and maintenance	40	275	-	7,986	8,301	79	608	-	6,499	7,186
Accounting and legal	-	-	-	7,997	7,997	-	-	-	6,919	6,919
Rental expenses	7,792	-	-	-	7,792	5,206	-	-	-	5,206
Training	4,593	-	-	-	4,593	10,801	68	-	-	10,869
Meetings and travel	3,168	27	487	434	4,116	1,529	-	-	470	1,999
Bank charges	-	-	-	1,793	1,793	-	-	-	3,214	3,214
Advertising	1,091	-	-	516	1,607	-	-	-	1,751	1,751
Total expenses	\$ 1,423,890	\$ 284,067	\$ 90,628	\$ 138,686	\$ 1,937,271	\$ 1,279,136	\$ 278,035	\$ 78,291	\$ 140,948	\$ 1,776,410

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 148,355	\$ 82,642
Depreciation and amortization	43,551	41,527
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gifts restricted for long-term purposes	(100,250)	(30,000)
In kind donation of property and equipment	-	(11,500)
(Increase) decrease in assets:		
Warehouse inventory	767	20,792
Grants/accounts receivable	1,591	5,105
Construction in process/lots held	107,061	(80,916)
Mortgages receivable	(255,741)	(120,950)
Increase (decrease) in liabilities:		
Accounts payable	(18,905)	22,307
Escrow liability	(14,005)	(6,860)
Accrued expenses	(79)	4,782
Net cash used in operating activities	<u>(87,655)</u>	<u>(73,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(7,304)</u>	<u>(5,270)</u>
Net cash used in investing activities	<u>(7,304)</u>	<u>(5,270)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on line-of-credit	(28,483)	50,385
Borrowing on note payable	100,000	-
Principal paid on long-term debt	(62,760)	(62,893)
Gifts restricted for long-term purposes	<u>130,250</u>	<u>52,139</u>
Net cash provided by financing activities	<u>139,007</u>	<u>39,631</u>
Net increase (decrease) in cash and cash equivalents	44,048	(38,710)
Cash and cash equivalents, beginning of year	<u>479,083</u>	<u>517,793</u>
Cash and cash equivalents, end of year	<u><u>\$ 523,131</u></u>	<u><u>\$ 479,083</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u><u>\$ 15,078</u></u>	<u><u>\$ 14,861</u></u>
NON-CASH TRANSACTIONS		
Construction in process/lots held transferred to property and equipment	<u><u>\$ -</u></u>	<u><u>\$ 195,551</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, 2016 AND 2015

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

Rutherford County Area Habitat for Humanity, Inc. ("Habitat" or "Organization"), is a not-for-profit organization, chartered by the State of Tennessee, and is the local affiliate of Habitat for Humanity International ("HFHI") 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, appliances, and other items 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 Accounting Standards Codification (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, 2016 AND 2015

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 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. Buildings and improvements, including rental property, are depreciated using the straight-line method over an estimated life ranging from ten to 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, 2016 AND 2015

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages and Notes Receivable

Rutherford County Area Habitat for Humanity, Inc., sells homes to qualifying families and provides interest free mortgages ranging from twenty to thirty-five 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.

The allowance for doubtful loans is maintained at a level that, in management's judgment, is adequate to absorb loan losses. This determination is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for potential loan losses in the period in which they become known. In addition, the net realizable value of property serving as collateral for delinquent loans will be assessed on an annual basis. Due to the nature of the relationship with its borrowers, the Organization is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Organization's mission.

A loan is considered impaired when, based upon current information and events, it is probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments of principal and interest are over 90 days overdue.

Income Taxes

Habitat is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. The Organization does not believe that during the fiscal years ended June 30, 2016 and 2015 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Organization files Federal Form 990 in the United States. Federal Forms 990 filed before June 30, 2013 are no longer subject to examination.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

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.

Events Occurring After Reporting Date

Rutherford County Area Habitat for Humanity, Inc. has evaluated events and transactions that occurred between June 30, 2016 and October 26, 2016, 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 \$4,064 and \$19,583 June 30, 2016 and 2015, respectively, in a separate escrow account used to pay for homeowner property taxes and insurance.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 - MORTGAGES RECEIVABLE

Mortgages receivable as of each June 30 are summarized as follows:

		2016	2015
Homes with mortgages	69	\$ 3,523,000	\$ 3,026,941
Less unamortized discount		<u>(1,885,722)</u>	<u>(1,645,404)</u>
		<u>\$ 1,637,278</u>	<u>\$ 1,381,537</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):

Performing	\$ 3,267,174
Non performing	<u>255,826</u>
	<u>\$ 3,523,000</u>

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

30 - 59 days past due	\$ 180,935
60 - 90 days past due	-
91 - 120 days past due	6,991
Over 120 days past due	248,835
Current	<u>3,086,239</u>
	<u>\$ 3,523,000</u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of each June 30 is as follows:

	2016	2015
Vehicles	\$ 42,299	\$ 42,299
Office furniture and equipment	80,245	79,706
Rental property	202,316	195,551
Building	873,617	873,617
	<u>1,198,477</u>	<u>1,191,173</u>
Less accumulated depreciation	352,178	309,332
	<u>846,299</u>	<u>881,841</u>
Land	227,235	227,235
	<u><u>\$ 1,073,534</u></u>	<u><u>\$ 1,109,076</u></u>

NOTE 5 - TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat voluntarily remits a portion of its cash contributions to HFHI. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$8,000 and \$8,000 to HFHI for the years ended June 30, 2016 and 2015, respectively.

Habitat remitted \$15,000 and \$10,000 in 2016 and 2015, respectively, to HFHI in accordance with the U.S. Stewardship and Organizational Sustainability Initiative.

NOTE 6 - RESTRICTIONS ON NET ASSETS

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

	2016	2015
Pledges receivable	\$ -	\$ 30,000
Rehabilitation projects	24,169	24,169
Home sponsorships	100,250	-
	<u><u>\$ 124,419</u></u>	<u><u>\$ 54,169</u></u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 7 - LINES OF CREDIT

The Organization has two lines-of-credit with a bank for \$300,000 and \$100,000, respectively. The first line is secured by the mortgage notes receivables and deeds of trust and matures June 18, 2017. The interest rate on the line at June 30, 2016 was 5%. The unused portion at June 30, 2016 is \$47,982. The second line is unsecured, used for ReStore inventory purchases, and matures December 5, 2016. The interest rate on the line at June 30, 2016 was 6.25%. The unused portion at June 30, 2016 is \$79,818.

NOTE 8 - NOTE PAYABLE

The Organization borrowed \$100,000 on November 18, 2015 on an unsecured term note. The note is due on May 18, 2017. No interest rate has been stated on the term note.

NOTE 9 - LONG TERM DEBT

Long term debt is composed of the following:

	2016	2015
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.	\$ 738,461	\$ 801,221
Less current portion	<u>62,757</u>	<u>62,757</u>
	<u>\$ 675,704</u>	<u>\$ 738,464</u>

Aggregate maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2017	\$ 62,757
2018	<u>675,704</u>
	<u>\$ 738,461</u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 10 - 401K PLAN

The Organization has a 401k plan that covers all eligible employees who have reached age 30 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, 2016 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2016 and 2015 matching contributions were \$6,668 and \$5,383, respectively.

NOTE 11 - RELATED PARTY

During the year, the Organization purchased building materials from a company owned by a board member. Purchases from this company totaled \$38,927. This company also made in-kind contributions of building materials which have been included in these financial statements.

NOTE 12 - CONTINGENCY

During the year, the Organization sold one first mortgage to Tennessee Housing Development Agency (THDA) for \$90,750. A third-party agency contracted by THDA services the mortgages collecting principal and escrow payments from the homeowners. 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. Twenty-one mortgages totaling \$1,115,212 are serviced under this arrangement.