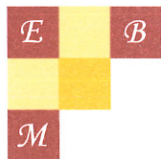


**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

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, 2011 and 2010, 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, 2011 and 2010, 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

September 29, 2011

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 161,876	\$ 195,963
Grants/accounts receivable	6,154	9,231
Warehouse inventory	30,299	20,780
Prepaid expenses	-	27,935
Construction in process/lots held	768,795	658,890
Contributions receivable currently due, net	64,046	44,443
Current portion of mortgages	<u>153,340</u>	<u>148,740</u>
Total current assets	<u>1,184,510</u>	<u>1,105,982</u>
Property and equipment, net	<u>980,763</u>	<u>1,005,052</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	965,244	952,381
Non-current contributions receivable, net	111,270	67,543
Other assets	<u>3,061</u>	<u>4,592</u>
Total other assets	<u>1,079,575</u>	<u>1,024,516</u>
TOTAL ASSETS	<u><u>\$ 3,244,848</u></u>	<u><u>\$ 3,135,550</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 56,135	\$ 55,577
Note payable to bank - line-of-credit	228,441	218,442
Accounts payable	7,714	47,871
SHOP Grant payable	18,042	29,130
Escrow funds held	50,473	44,589
Other accrued expenses	<u>5,287</u>	<u>13,902</u>
Total current liabilities	<u>366,092</u>	<u>409,511</u>
LONG-TERM DEBT, less current portion		
Mortgage note payable	<u>988,374</u>	<u>1,044,237</u>
NET ASSETS		
Unrestricted	1,715,066	1,502,549
Temporarily restricted	<u>175,316</u>	<u>179,253</u>
Total net assets	<u>1,890,382</u>	<u>1,681,802</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,244,848</u></u>	<u><u>\$ 3,135,550</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, 2011 AND 2010

	2011	2010
SUPPORT AND REVENUE:		
Grants/contributions	\$ 594,014	\$ 485,394
Transfers to homeowners	555,958	695,521
Mortgage discount amortization	74,719	74,846
Gain on mortgages sold	68,707	43,025
Contributions of land, materials, labor	59,671	37,048
Interest income	1,626	558
Restore income	371,486	307,790
Other income	5,646	2,550
Net assets released from restrictions	<u>115,464</u>	<u>424</u>
 Total unrestricted support and revenue	 <u>1,847,291</u>	 <u>1,647,156</u>
 EXPENSES:		
Program services:		
Construction	1,066,300	1,269,066
Restore	337,862	248,918
Fundraising	151,497	172,925
General and administrative	<u>79,115</u>	<u>62,214</u>
 Total expenses	 <u>1,634,774</u>	 <u>1,753,123</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>212,517</u>	 <u>(105,967)</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	111,527	175,986
Net assets released from restrictions	<u>(115,464)</u>	<u>(424)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>(3,937)</u>	 <u>175,562</u>
 CHANGES IN NET ASSETS	 208,580	 69,595
 NET ASSETS, BEGINNING OF YEAR	 <u>1,681,802</u>	 <u>1,612,207</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 1,890,382</u></u>	 <u><u>\$ 1,681,802</u></u>

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

	2011				2010			
	Program		General and Administrative		Program		General and Administrative	
	Construction	Restore	Fundraising	Total	Construction	Restore	Fundraising	Total
Construction materials and supplies	\$ 630,450	\$ -	\$ -	\$ 630,450	\$ 757,158	\$ -	\$ -	\$ 757,158
Payroll and related costs	199,078	137,479	45,606	430,224	174,122	120,245	49,109	380,534
Mortgage discount	115,188	-	-	115,188	215,268	-	-	215,268
Restore expense	-	109,583	-	109,583	-	48,550	-	48,550
Professional fundraising expenses	-	-	90,247	90,247	-	-	115,985	115,985
Insurance	29,219	17,782	1,555	50,196	22,473	13,677	1,196	38,607
Depreciation and amortization	4,070	22,745	1,554	31,072	4,049	22,626	1,546	30,910
Interest	3,003	16,777	1,146	22,920	2,905	16,232	1,109	22,175
Utilities	2,779	15,526	1,061	21,211	2,565	14,333	979	19,580
Tools	10,504	-	-	10,504	18,012	-	-	18,012
Printing	6,175	-	9,868	16,794	9,501	-	-	9,501
Repair and maintenance	9,557	5,402	-	16,754	5,103	2,884	-	11,167
Contract labor	11,179	2,728	-	15,123	10,511	1,720	-	12,553
Tithes and contributions	13,000	-	-	13,000	12,500	-	-	12,500
Accounting and legal	-	-	-	9,300	-	-	-	8,500
Telephone	1,205	6,736	460	9,202	1,097	6,128	419	8,372
Office supplies	5,446	2,742	-	9,141	5,991	-	2,065	8,983
Training	7,490	-	-	8,689	2,253	-	-	2,253
Miscellaneous	1,969	-	-	6,013	1,130	-	-	3,451
Community events	5,975	-	-	5,975	11,204	-	-	11,204
Dues and fees	3,203	-	-	3,803	2,326	-	-	2,926
PO Box rental and postage	3,011	-	-	3,275	4,980	-	-	4,980
Meetings and travel	1,799	-	-	2,428	2,584	-	-	2,584
HFHI Vista cost share	2,000	-	-	2,000	1,500	-	-	1,500
Bank charges	-	-	-	1,320	-	-	-	606
Advertising	-	362	-	362	-	1,257	-	1,257
Payroll service expenses	-	-	-	-	1,834	1,266	517	390
Total expenses	\$ 1,066,300	\$337,862	\$ 151,497	\$1,634,774	\$ 1,269,066	\$ 248,918	\$ 172,925	\$1,753,123

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, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 208,580	\$ 69,595
Depreciation and amortization	31,072	30,910
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts restricted for long-term purposes	(111,527)	(175,986)
Increase in warehouse inventory	(9,519)	(16,889)
Decrease in grants/accounts receivable	3,077	76,592
(Increase) decrease in construction in process/lost held	(109,905)	63,771
Increase in mortgages receivable	(17,463)	(12,475)
(Increase) decrease in prepaid and other expenses	27,935	(21,393)
Increase (decrease) in accounts payable	(40,157)	44,371
Decrease in SHOP Grant payable	(11,088)	(12,377)
Increase in escrow liability	5,884	22,513
Decrease in accrued expenses	<u>(8,615)</u>	<u>(9,763)</u>
Net cash provided by (used in) operating activities	<u>(31,726)</u>	<u>58,869</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(5,252)</u>	<u>(10,648)</u>
Net cash used in investing activities	<u>(5,252)</u>	<u>(10,648)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on line-of-credit	9,999	(137,229)
Principal paid on long-term debt	(55,305)	(54,804)
Gifts restricted for long-term purposes	<u>48,197</u>	<u>64,000</u>
Net cash provided by (used in) financing activities	<u>2,891</u>	<u>(128,033)</u>
Net decrease in cash and cash equivalents	(34,087)	(79,812)
Cash and cash equivalents, beginning of year	<u>195,963</u>	<u>275,775</u>
Cash and cash equivalents, end of year	<u><u>\$ 161,876</u></u>	<u><u>\$ 195,963</u></u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u><u>\$ 22,920</u></u>	<u><u>\$ 22,175</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, 2011 AND 2010

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, 2011 AND 2010

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, 2011 AND 2010

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, 2011 and September 29, 2011, 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 \$51,124 and \$34,182 June 30, 2011 and 2010, 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, 2011 AND 2010

NOTE 3 - MORTGAGES RECEIVABLE (CONTINUED)

Mortgages receivable are summarized as follows:

		2011	2010
Homes with mortgages	68	\$ 2,435,217	\$ 2,445,991
Less unamortized discount		<u>(1,316,633)</u>	<u>(1,344,870)</u>
		<u>\$ 1,118,584</u>	<u>\$ 1,101,121</u>

The discount is computed using rates varying from 7.69% 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, 2011 are summarized as follows:

Corporate donors	\$ 187,183
Less discounts to net present value	<u>(11,867)</u>
	<u>\$ 175,316</u>

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

Current portion	\$ 64,046
Non-current portion	<u>111,270</u>
Total	<u>\$ 175,316</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>\$ 175,316</u>
--------------------------	-------------------

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2011	2010
Vehicles	\$ 7,300	\$ 7,300
Office furniture and equipment	49,793	44,542
Building	<u>868,347</u>	<u>868,347</u>
	925,440	920,189
Less accumulated depreciation	<u>171,912</u>	<u>142,372</u>
	753,528	777,817
Land	<u>227,235</u>	<u>227,235</u>
	<u>\$ 980,763</u>	<u>\$ 1,005,052</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 \$13,000 and \$12,500 to Habitat International for the years ended June 30, 2011 and 2010, respectively.

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

	2011	2010
Scholarships	\$ -	\$ 3,267
Sponsorship – October 2010 build	-	64,000
Building Rutherford Campaign	<u>175,316</u>	<u>111,986</u>
	<u>\$ 175,316</u>	<u>\$ 179,253</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, 2011. The interest rate on the line at June 30, 2011 was 3%. The unused portion at June 30, 2011 is \$146,559.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 9 - LONG TERM DEBT

Long term debt is composed of the following:

	2011	2010
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.	\$ 1,044,509	\$ 1,099,814
Less current portion	<u>56,135</u>	<u>55,577</u>
	<u>\$ 988,374</u>	<u>\$ 1,044,237</u>

Aggregate maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2012	\$ 56,135
2013	56,699
2014	<u>931,675</u>
	<u>\$ 1,044,509</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, 2011 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2011 and 2010 matching contributions were \$4,149 and \$3,640, respectively.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 11 - CONTINGENCY

During the year, the Organization sold four first mortgages to Tennessee Housing Development Agency (THDA) for \$273,000. 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. Fifteen mortgages totaling \$927,507 are serviced under this arrangement.

NOTE 12 - COMMITMENT

The Organization 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 committed to a fee of \$148,000 payable monthly through October 2010. At June 30, 2011 the Organization has no further commitments under this agreement.