

# 2012

## Financial Statements

**RESIDENTIAL RESOURCES, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

(With Independent Auditor's Report Thereon)

RESIDENTIAL RESOURCES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
of Residential Resources, Inc.

We have audited the accompanying financial statements of Residential Resources, Inc., which comprise the balance sheet as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year 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**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 statements are free from 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 the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Residential Resources, Inc. as of June 30, 2012, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Emphasis-of-Matter**

The previously issued financial statements have been restated for the correction of errors as described in Note 5 in the notes to the financial statements. Our opinion is not modified with respect to this matter.

*Patterson Hardee & Ballentine*

January 29, 2013

**RESIDENTIAL RESOURCES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

**ASSETS**

Current Assets:			
Cash	\$	20,826	
Accounts receivable		29,677	
Prepaid expenses		<u>1,288</u>	
Total current assets			\$ 51,791
Buildings		103,812	
Less: Accumulated depreciation		<u>(36,193)</u>	
Total buildings			67,619
Asset Whose Use is Limited:			
Buildings			<u>105,000</u>
			<u>\$ 224,410</u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:			
Accounts payable	\$	1,172	
Current installment of note payable		<u>2,503</u>	
Total current liabilities			\$ 3,675
Note payable, less current installments			55,710
Net Assets:			
Unrestricted		60,025	
Temporarily restricted		<u>105,000</u>	
Total net assets			<u>165,025</u>
			<u>\$ 224,410</u>

See accompanying notes to financial statements.

**RESIDENTIAL RESOURCES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue:				
Contributions	\$ 45,899	\$ -	\$ -	\$ 45,899
Revenues:				
Grants	86,106	-	-	86,106
Rent income	27,824	-	-	27,824
Program income	6,150	-	-	6,150
Total revenues	120,080	-	-	120,080
Total public support and revenue	165,979	-	-	165,979
Expenses:				
Program Services:				
Housing	79,433	-	-	79,433
Community Housing Development				
Organization	15,192	-	-	15,192
Total program services	94,625	-	-	94,625
Supporting Services:				
Management and general	57,008	-	-	57,008
Total supporting services	57,008	-	-	57,008
Total program and supporting expenses	151,633	-	-	151,633
Increase in net assets	14,346	-	-	14,346
Net assets- beginning of year, as previously stated	30,165			30,165
Prior period adjustment	15,514	105,000	-	120,514
Net assets - beginning of year, as restated	45,679	105,000	-	150,679
Net assets - end of year	\$ 60,025	\$ 105,000	\$ -	\$ 165,025

See accompanying notes to financial statements.



**RESIDENTIAL RESOURCES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Program Services</u>		<u>Supporting Services</u>	
		<u>Community Housing Development Organization</u>	<u>Management and General</u>	<u>Total Expenses</u>
	<u>Housing</u>			
Salaries & payroll taxes	\$ 48,524	\$ 1,673	\$ 33,465	\$ 83,662
Employee benefits	3,484	120	2,403	6,007
Insurance	223	149	-	372
Interest	-	2,989	-	2,989
Postage and printing	147	-	98	245
Advertising	35	-	-	35
Miscellaneous	-	-	2,056	2,056
Office	2,159	-	1,440	3,599
Bank charges	-	-	203	203
Legal and professional	-	-	5,650	5,650
Rent	6,480	-	4,320	10,800
Utilities	3,023	-	2,015	5,038
Communications	5,213	-	3,476	8,689
Supplies	2,164	-	1,442	3,606
Subscriptions and fees	346	-	230	576
Conferences and training	304	10	210	524
Depreciation	7,331	-	-	7,331
Project for CHDO	-	10,251	-	10,251
	<u>\$ 79,433</u>	<u>\$ 15,192</u>	<u>\$ 57,008</u>	<u>\$ 151,633</u>

See accompanying notes to financial statements.

**RESIDENTIAL RESOURCES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Cash Flows From Operating Activities:

Increase in net assets		\$ 14,346
Adjustment to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	\$ 7,331	
Changes in:		
Accounts receivable	(15,713)	
Prepaid expenses	(1,288)	
Accounts payable	(682)	
Accrued expenses	(5,899)	
Total adjustments		(16,251)
Net cash used in operating activities		(1,905)

Cash Flows From Financing Activities:

Principal payments on note payable	(2,879)	
Net cash used in financing activities		(2,879)

Net decrease in cash	(4,784)
Cash - beginning of year	25,610
Cash - end of year	<u>\$ 20,826</u>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2012, was \$2,989.

During the year ended June 30, 2012, the Organization converted \$177,439 of assets held in inventory to a depreciable asset.



**RESIDENTIAL RESOURCES, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1 - Summary of Significant Accounting Policies**

**Nature of Activities**

Residential Resources, Inc. ("we" "our" and "us") is a HUD certified chartered non-profit corporation in the State of Tennessee organized on October 31, 1997. Our purpose is to provide quality affordable housing, counseling, information, education, development and referral services to low and moderate income citizens of the HUD defined Nashville-Davidson-Murfreesboro-Franklin, TN MSA.

**Basis of Presentation**

We have prepared the accompanying financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

**Unrestricted net assets**

Net assets which are not subject to donor-imposed stipulations.

**Temporarily restricted net assets**

Net assets subject to donor-imposed stipulations which may or will be met, by either our actions and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted. Earnings on temporarily restricted funds are classified as unrestricted net assets. Realized gains and losses on temporarily restricted net assets are also classified as unrestricted net assets.

**Permanently restricted net assets**

Net assets subject to donor-imposed stipulations which must be maintained permanently by us. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2012, we had no cash equivalents.

**Property and Equipment**

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. We do not have a capitalization policy. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Expenditures for repairs and maintenance are charged to expense as incurred. We currently own two residential houses and one duplex. The two houses are collateralized against a note payable from The Housing Fund.

The Housing Fund retains a priority reversionary interest in all property acquired with proceeds from notes payable. This reversionary interest extends from the initial purchase of the property to an additional twenty year period.

**RESIDENTIAL RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Inventory

Inventory is valued at the lower of cost or market. At June 30, 2012, two residences were reflected in inventory. During the year ended June 30, 2012, we acquired approval to reclassify the inventory items as rental units to be depreciated in accordance with generally accepted accounting principles. As of June 30, 2012, we had no inventory.

Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and we are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

We adopted guidance issued by FASB with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on our financial statements.

We recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. We have no amounts accrued for interest or penalties as of June 30, 2012. We are no longer subject to examination by U.S. federal and state taxing authorities for years before 2009.

Functional Allocation of Expenses

The costs of providing program services and supporting services 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.

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. Actual results could differ from those estimates.

Revenue Recognition

We recognize service income in the period in which services are provided to consumers based on a contractual rate per client per day. The majority of our fee income is from the National Foreclosure Mitigation Counseling Program - Tennessee Housing Development Agency per client based on the level of service provided.

Accounts Receivable

Accounts receivable are considered to be fully collectible. Accounts receivable consists of grant reimbursement and rents receivable. No allowance for uncollectible accounts receivable was considered necessary at year-end.



**RESIDENTIAL RESOURCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

NOTE 2 - Concentration of Credit Risk

At June 30, 2012, we were due 100% of all outstanding receivables from four organizations. We owed 90% of all payables to two vendors.

NOTE 3 - Note Payable

Long-term debt at June 30, 2012 consists of a note payable from The Housing Fund. The note payable has a maturity date of January 1, 2013. The interest is at a 5% annual rate with monthly required payments of \$489. The principal balance as of June 30, 2012, was \$58,213.

The following is a schedule of future maturities:

<u>Year Ending June 30,</u>	
2013	\$ 2,503
2014	3,149
2015	3,310
2016	3,480
2017	3,658
Thereafter	<u>42,113</u>
	58,213
Less: current installments	<u>(2,503)</u>
	<u>\$ 55,710</u>

See Note 4.

NOTE 4 - Subsequent Events

The Housing Fund note payable was extended five years with a maturity date of January 1, 2018. Originally, the note payable had a maturity date of January 1, 2013. See Note 3 for note payable future maturities with a maturity date of January 1, 2018.

We have evaluated events subsequent to the year ending June 30, 2012. As of January 29, 2013, the date the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the year ended June 30, 2012.

NOTE 5 - Prior Period Adjustment

During the year ended June 30, 2012, two errors were discovered in previously issued financial statements. A liability of \$105,000 had been incorrectly recorded as both a liability and a restricted net asset as well as included in another liability account. This error resulted in overstated liabilities and restricted net assets of \$105,000. In addition to the incorrectly recorded liability, a deposit of \$10,514 was incorrectly included in revenues, and a pension liability of \$5,000 was incorrectly recorded. These errors resulted in overstated revenues and understated assets by \$10,514 and overstated liabilities by \$5,000. Adjustments to beginning net assets have been recorded totalling \$120,514.