

**NEW LEVEL COMMUNITY
DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2012 AND 2011

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

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August 21, 2013

Independent Auditors' Report

To the Board of Directors of
New Level Community Development Corporation
Nashville, Tennessee

We have audited the accompanying financial statements of New Level Community Development Corporation (the Corporation), a non-profit organization, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, 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.

Auditors' 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 audits 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 auditors' 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 auditors consider internal control relevant to the Corporation'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 Corporation'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 New Level Community Development Corporation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Puryear, Hamilton, Hausman, & Wood, PLLC

Franklin, Tennessee

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Statements of Financial Position

December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|--------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 227,673 | \$ 145,179 |
| Temporarily restricted | 33,914 | 17,009 |
| Restricted cash for consortium members | 25,000 | - |
| Unconditional promises to give: | | |
| Unrestricted | 10,148 | 5,222 |
| Temporarily restricted | - | 50,000 |
| Grants receivable | - | 22,337 |
| Prepaid insurance | 1,189 | 2,089 |
| Other receivable | <u>1,080</u> | <u>100</u> |
| Total current assets | 299,004 | 241,936 |
| Real estate held for sale | 26,869 | 26,869 |
| Property and equipment, net | <u>867,425</u> | <u>536,059</u> |
| Total assets | <u>\$ 1,193,298</u> | <u>\$ 804,864</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Current portion of notes payable | \$ 4,667 | \$ - |
| Accounts payable | 18 | 7,282 |
| Employee benefits and payroll taxes payable | 2,344 | 1,673 |
| Security deposits | 4,847 | 1,175 |
| Due to consortium members | <u>25,000</u> | <u>25,000</u> |
| Total current liabilities | <u>36,876</u> | <u>35,130</u> |
| Long-term portion of notes payable | <u>64,944</u> | <u>-</u> |
| Total liabilities | <u>101,820</u> | <u>35,130</u> |
| Net assets: | | |
| Unrestricted | 1,057,564 | 727,725 |
| Temporarily restricted | <u>33,914</u> | <u>42,009</u> |
| Total net assets | <u>1,091,478</u> | <u>769,734</u> |
| Total liabilities and net assets | <u>\$ 1,193,298</u> | <u>\$ 804,864</u> |

See independent auditors' report and accompanying notes to financial statements.

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2012 and 2011

| | 2012 | | | 2011 | | |
|--|---------------------|-----------------------------------|---------------------|---------------------|-----------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Support and revenues: | | | | | | |
| Grant income - Federal awards | \$ 216,410 | \$ - | \$ 216,410 | \$ 540,932 | \$ - | \$ 540,932 |
| Contributions | 177,777 | - | 177,777 | 188,676 | 25,000 | 213,676 |
| Grant income - State awards | 118,735 | - | 118,735 | 67,346 | - | 67,346 |
| Rental income and fees | 62,836 | - | 62,836 | 11,760 | - | 11,760 |
| Program fees | 6,912 | - | 6,912 | 999 | - | 999 |
| Other income | 357 | - | 357 | 26 | - | 26 |
| Net assets released from restrictions: | | | | | | |
| Satisfaction of program restrictions | 8,095 | (8,095) | - | 42,390 | (42,390) | - |
| Total support and revenues | <u>591,122</u> | <u>(8,095)</u> | <u>583,027</u> | <u>852,129</u> | <u>(17,390)</u> | <u>834,739</u> |
| Expenses: | | | | | | |
| Program services | 178,709 | - | 178,709 | 129,905 | - | 129,905 |
| Fundraising | 25,904 | - | 25,904 | 28,925 | - | 28,925 |
| Management and general | 56,670 | - | 56,670 | 54,442 | - | 54,442 |
| Total expenses | <u>261,283</u> | <u>-</u> | <u>261,283</u> | <u>213,272</u> | <u>-</u> | <u>213,272</u> |
| Increase (decrease) in net assets | 329,839 | (8,095) | 321,744 | 638,857 | (17,390) | 621,467 |
| Net assets at beginning of year | <u>727,725</u> | <u>42,009</u> | <u>769,734</u> | <u>88,868</u> | <u>59,399</u> | <u>148,267</u> |
| Net assets at end of year | <u>\$ 1,057,564</u> | <u>\$ 33,914</u> | <u>\$ 1,091,478</u> | <u>\$ 727,725</u> | <u>\$ 42,009</u> | <u>\$ 769,734</u> |

See independent auditors' report and accompanying notes to financial statements.

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Operating activities: | | |
| Increase (decrease) in net assets | \$ 321,744 | \$ 621,467 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 16,330 | 4,968 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in restricted cash for consortium members | (25,000) | - |
| (Increase) decrease in promises to give - Unrestricted | (4,926) | (422) |
| (Increase) decrease in promises to give - Restricted | 50,000 | (50,000) |
| (Increase) decrease in other receivable | (980) | (100) |
| (Increase) decrease in grants receivable | 22,337 | (17,624) |
| (Increase) decrease in prepaid insurance | 900 | (2,089) |
| Increase (decrease) in accounts payable | (7,264) | 6,538 |
| Increase (decrease) in security deposits | 3,672 | 1,175 |
| Increase (decrease) in due to consortium members | - | 25,000 |
| Increase (decrease) in employee benefits and payroll taxes payable | <u>671</u> | <u>(3,181)</u> |
| Net cash provided by (used for) operating activities | <u>377,484</u> | <u>585,732</u> |
| Investing activities: | | |
| Purchase of property and equipment | <u>(347,696)</u> | <u>(531,017)</u> |
| Net cash provided by (used for) investing activities | <u>(347,696)</u> | <u>(531,017)</u> |
| Financing activities: | | |
| Proceeds from notes payable | 70,000 | - |
| Repayment of notes payable | <u>(389)</u> | <u>-</u> |
| Net cash provided by (used for) financing activities | <u>69,611</u> | <u>-</u> |
| Increase (decrease) in cash and cash equivalents | 99,399 | 54,715 |
| Cash and cash equivalents at beginning of year | <u>162,188</u> | <u>107,473</u> |
| Cash and cash equivalents at end of year | <u>\$ 261,587</u> | <u>\$ 162,188</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ -</u> | <u>\$ 89</u> |

See independent auditors' report and accompanying notes to financial statements.

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Statements of Functional Expenses

For the Year Ended December 31, 2012

| | Program Services | | | Supporting Services | | |
|---|----------------------------|---------------------------|-----------------------|---------------------|-------------------------------|--------------|
| | <u>Financial Education</u> | <u>Affordable Housing</u> | <u>Rental Housing</u> | <u>Fund Raising</u> | <u>Management and General</u> | <u>Total</u> |
| Functional expenses: | | | | | | |
| Accounting services | \$ - | \$ - | \$ - | \$ - | \$ 15,546 | \$ 15,546 |
| Advertising/marketing | 600 | - | - | - | - | 600 |
| Professional services | - | 444 | - | - | 18,394 | 18,838 |
| Consultants | - | 3,679 | 3,679 | - | - | 7,358 |
| Contracted services | 157 | - | - | - | - | 157 |
| Depreciation expense | - | - | 14,147 | - | 2,183 | 16,330 |
| Employee benefits - In kind (see Note 11) | 7,039 | 1,242 | - | - | - | 8,281 |
| Equipment/equipment maintenance | 1,560 | 111 | 334 | 112 | 111 | 2,228 |
| Insurance | - | - | 3,636 | - | 2,424 | 6,060 |
| Licenses, fees, and dues | - | - | - | - | 1,846 | 1,846 |
| Matching expense | 10,320 | - | - | - | - | 10,320 |
| Meals/food | 755 | 302 | 76 | 226 | 151 | 1,510 |
| Office supplies | 657 | 263 | 66 | 197 | 132 | 1,315 |
| Other expenses | 418 | 77 | 1,022 | 47 | (184) | 1,380 |
| Payroll tax expense | 3,203 | 1,881 | 497 | 1,243 | 746 | 7,570 |
| Property maintenance | - | 7,661 | 9,573 | - | - | 17,234 |
| Property taxes | - | - | 10,797 | - | 839 | 11,636 |
| Salaries and wages | 41,868 | 24,594 | 6,500 | 16,250 | 9,750 | 98,962 |
| Rent expense - In kind (see Note 11) | 5,925 | 8,888 | 2,963 | 7,407 | 4,444 | 29,627 |
| Technology | 286 | 21 | 61 | 20 | 20 | 408 |
| Telephone expense | 1,339 | 536 | 134 | 402 | 268 | 2,679 |
| Training | 1,398 | - | - | - | - | 1,398 |
| Total functional expenses | \$ 75,525 | \$ 49,699 | \$ 53,485 | \$ 25,904 | \$ 56,670 | \$ 261,283 |

See independent auditors' report and accompanying notes to financial statements.

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Statements of Functional Expenses (Continued)

For the Year Ended December 31, 2011

| | Program Services | | | | Supporting Services | | |
|---|------------------|----------------------------|--------------------------|-------------|---------------------------|---------------------|-------------------------------|
| | <u>HBED</u> | <u>Financial Education</u> | <u>Volunteer Support</u> | <u>VITA</u> | <u>Affordable Housing</u> | <u>Fund Raising</u> | <u>Management and General</u> |
| | | | | | | | <u>Total</u> |
| Functional expenses: | | | | | | | |
| Accounting services | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 14,345 |
| Advertising/marketing | 229 | 229 | - | 237 | - | - | 695 |
| Professional services | - | - | - | - | - | - | 8,314 |
| Closing and construction costs | - | - | - | - | 1,708 | - | - |
| Consultants | - | 350 | - | - | - | - | 350 |
| Contracted services | 6,000 | - | - | - | - | - | 6,000 |
| Depreciation expense | - | - | - | - | - | - | 4,968 |
| Employee benefits - In kind (see Note 11) | 4,515 | 753 | - | - | 1,129 | 1,129 | 1,129 |
| Equipment/equipment maintenance | 1,469 | 1,469 | 1,469 | 1,469 | 368 | 368 | 736 |
| Insurance | 365 | 365 | 364 | 364 | 91 | 91 | 182 |
| Licenses, fees, and dues | - | - | - | - | - | - | 2,090 |
| Meals/food | 76 | 877 | - | 800 | - | 76 | 152 |
| Office supplies | 474 | 474 | 475 | 475 | - | - | 210 |
| Other expenses | 746 | 746 | 746 | 746 | 187 | 185 | 647 |
| Payroll tax expense | 1,903 | 1,114 | 395 | 395 | 1,614 | 1,485 | 917 |
| Property maintenance | - | - | - | - | 800 | - | 800 |
| Salaries and wages | 24,868 | 14,555 | 5,164 | 5,164 | 21,094 | 19,422 | 12,000 |
| Rent expense - In kind (see Note 11) | 2,963 | 2,963 | 1,481 | 1,481 | 8,888 | 5,925 | 5,926 |
| Technology | 330 | 330 | 330 | 329 | 82 | 82 | 164 |
| Telephone expense | 648 | 648 | 648 | 648 | 162 | 162 | 324 |
| Training | - | - | - | - | 1,143 | - | 1,143 |
| Total functional expenses | \$ 44,586 | \$ 24,873 | \$ 11,072 | \$ 12,108 | \$ 37,266 | \$ 28,925 | \$ 54,442 |
| | | | | | | | \$ 83,367 |
| | | | | | | | \$ 213,272 |

See independent auditors' report and accompanying notes to financial statements.

NEW LEVEL COMMUNITY DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) General

New Level Community Development Corporation (the Corporation), a nonprofit organization, was formed on November 6, 2001. The Corporation is an outreach of Mt. Zion Baptist Church (Mt. Zion) that works to deliver solutions to the economic challenges plaguing the lives of people in the community it serves. Its services are delivered through financial empowerment programs, entrepreneurship training, and affordable housing programs that help families gain economic stability and self-sufficiency.

(b) Basis of Accounting

The financial statements of the Corporation are prepared using the accrual basis of accounting under which revenue is recognized when earned rather than collected and expenses are recognized when incurred rather than when disbursed.

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

(c) Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Corporation's Board of Directors.

Temporarily Restricted – Net assets whose use by the Corporation are subject to donor-imposed restrictions that can be fulfilled by actions of the Corporation pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of

(Continued)

Activities and Changes in Net Assets as net assets released from restrictions. In 2012 and 2011, the Corporation had \$33,914 and \$42,009, respectively, in temporarily restricted net assets.

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes. No permanently restricted assets were held during 2012 or 2011 and, accordingly, these financial statements do not reflect any activity related to this class of net assets for 2012 and 2011.

(d) Use of Estimates

Preparation of the Corporation's financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual amounts may differ from these estimates.

(e) Cash Equivalents

For the purpose of the Statements of Financial Position and the Statements of Cash Flows, the Corporation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

(f) Promises to Give

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional.

(g) Doubtful Promises to Give

The Corporation uses the allowance method to determine uncollectible unconditional promises to give. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of promises to give. There is no allowance for doubtful promises to give at December 31, 2012 or 2011. It is reasonably possible that management's estimate of the allowance for doubtful promises to give could change. Promises to give are charged against the allowance when management believes the collectability of the promise to give is unlikely. For the years ended December 31, 2012 and 2011, no bad debt expense was recognized.

(h) Real Estate Held for Sale

Real estate held for sale consists of four undeveloped parcels of land to be sold in the future. The Corporation has decided that it would not be cost effective to develop these parcels for future homeownership opportunities; and, therefore, has

(Continued)

no plans to develop these parcels. Real estate held for sale is recorded at the lower of its carrying value or fair value less cost to sell.

(i) Contributions and Support

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributions, which are received as temporarily restricted, and whose restrictions are met within the same year are shown as unrestricted support on a first-in, first-out basis.

(j) Property and Equipment

Property and equipment are recorded at cost, or at fair market value if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets that range from 5 to 40 years. The Corporation capitalizes all expenditures for property and equipment in excess of \$500.

The Corporation reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment at December 31, 2012 or 2011.

(k) Income Taxes

The Corporation is exempt from federal income taxes under the Internal Revenue Code (the Code) Section 501(c)(3). Accordingly, federal income taxes are not provided for in the accompanying financial statements.

Contributions to the Corporation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code. The Corporation follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. Any interest and penalties recognized associated with a tax position are classified in management and general expense in the Corporation's financial statements.

(Continued)

(l) Program Services

Program services include financial education, entrepreneurship training, homeownership education, affordable housing, rental housing, and matched savings.

(m) Grant Revenues

Grant funds that do not have donor imposed restrictions are reflected as unrestricted revenue since these funds are generally received and spent during the same year. Grant funds that have been designated by the donor for use by specific programs are reflected as temporarily restricted revenue.

(n) Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Corporation's programs. No amounts have been recognized in the accompanying financial statements because the criteria for recognition under FASB ASC 958-205 have not been satisfied.

(p) Advertising

Advertising costs are charged to expense as incurred. In 2012 and 2011, advertising expense totaled \$600 and \$695, respectively.

(q) Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

(Continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Corporation's significant financial instruments are cash and cash equivalents and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

(r) Subsequent Events

The Corporation has evaluated subsequent events through August 21, 2013, the date the financial statements were available to be issued.

(2) Promises to Give

Promises to give as of December 31, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|------------------|
| Unrestricted - Mt. Zion | \$ 10,148 | \$ 5,222 |
| Temporarily restricted - Fifth Third Bank | - | 50,000 |
| Less - Allowance for uncollectible promises to give | <u>-</u> | <u>-</u> |
| | <u>\$ 10,148</u> | <u>\$ 55,222</u> |

(3) Property and Equipment

A summary of property and equipment as of December 31, 2012 and 2011 is as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|------------------|------------------|
| Land held for lease | \$156,000 | \$119,000 |
| Property held for lease | 720,917 | 412,942 |
| Computer hardware | 8,558 | 8,558 |
| Leasehold improvements | 5,326 | 5,326 |
| Furniture and fixtures | 1,300 | 1,300 |
| Other | <u>2,721</u> | <u>-</u> |
| | 894,822 | 547,126 |
| Less - Accumulated depreciation | <u>(27,397)</u> | <u>(11,067)</u> |
| | <u>\$867,425</u> | <u>\$536,059</u> |

Depreciation expense for the years ended December 31, 2012 and 2011 totaled \$16,330 and \$4,968, respectively.

At December 31, 2012, the Corporation has executed operating leases on all eleven of its properties. At December 31, 2011, the Corporation had executed operating leases on four of its eight properties. None of the leases are for more than one year. Rental income and fees totaled \$62,836 and \$11,760 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, accumulated depreciation for property held for lease was \$17,098 and \$2,951, respectively.

(4) Line of Credit

On February 8, 2011, the Corporation established a \$50,000 revolving line of credit with a bank. The interest rate is the greater of a floating rate equal to the Index rate minus 3.250%, or the Floor rate of 5.0%. At December 31, 2011, the outstanding balance was zero. The line matured on February 8, 2012, and was not renewed.

(Continued)

(5) Notes Payable

On May 30, 2012, the Corporation established a \$70,000 line of credit with a bank with a maximum loan amount of \$30,000 per house with a limit of 25.0% based on the lesser of cost plus renovations or appraised value. The interest rate is the Wall Street Journal Prime rate minus 4.0% with an interest rate floor of 0%. As loans are advanced, there is a 180 day interest only period. Afterwards, principal and interest payments will begin based on a fifteen year amortization. The line matures on May 30, 2017.

During 2012, the Corporation has drawn \$70,000 on the line of credit for renovations on four properties held for lease. Each of the four draws was converted to promissory notes with the same terms as the line of credit. Each loan is secured by the respective property, which had carrying values totaling \$300,399 at December 31, 2012, and each matures on May 30, 2017. There was no interest expense in 2012.

Maturities of notes payable as of December 31, 2012 are summarized as follows:

| | |
|------|------------------|
| 2013 | \$ 4,667 |
| 2014 | 4,667 |
| 2015 | 4,667 |
| 2016 | 4,667 |
| 2017 | <u>50,943</u> |
| | <u>\$ 69,611</u> |

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 and 2011 are available for the following purposes:

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| Home Buyer, Financial Education, and Matched Savings Programs | <u>\$ 33,914</u> | <u>\$ 42,009</u> |

Net assets were released from donor restrictions by incurring expenses or purchasing property or equipment satisfying the purpose restrictions specified by donors at December 31, 2012 and 2011 as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-----------------|------------------|
| Home Buyer, Financial Education, and VITA Programs | <u>\$ 8,095</u> | <u>\$ 42,390</u> |

(Continued)

(7) Employee Benefits

The Corporation provides a benefit package offered through Mt. Zion to all full-time employees. The benefit package includes individual and/or family health insurance, and life insurance. The Corporation records the benefits cost as a contribution from Mt. Zion, which totaled \$8,281 and \$7,526 for 2012 and 2011, respectively.

The Corporation has established a 403(b)(7) pension plan (the Plan) for the Executive Director. The Corporation can make discretionary contributions to the Plan. There were no contributions made to the Plan for the years ended December 31, 2012 and 2011.

(8) Concentrations of Credit Risk

The Corporation maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. All depositor accounts of the Corporation are fully insured at December 31, 2012 and 2011.

A significant portion of the Corporation's revenue is derived from individuals, organizations, corporations, and agencies in middle Tennessee. Mt. Zion contributed approximately \$123,500 and \$119,300 in 2012 and 2011, which represents 21% and 14%, and the Metropolitan Development and Housing Agency granted 34% and 61% of total unrestricted support and revenues during 2012 and 2011, respectively.

(9) Income Taxes

The Corporation recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Corporation's tax positions and has concluded that no tax liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (2009 – 2011), or expected to be taken in the Corporation's 2012 tax returns. The Corporation identifies its major tax jurisdictions as the U.S. Federal and the State of Tennessee. However, the Corporation is not currently under audit nor has the Corporation been contacted by any jurisdiction. The Corporation is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change in the next twelve months.

During the years ended December 31, 2012 and 2011, the Corporation did not recognize any material interest and penalties relating to taxes, nor were any accrued at December 31, 2012 and 2011.

(10) Paid Time Off

Employees of the Corporation are entitled to paid time off (PTO), depending on job classification, length of service, and other factors. Unused PTO is forfeited at the end of the year. It is impracticable to estimate the amount of compensation for future absences,

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and accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

(11) Related Party Transactions

The Corporation uses office space donated by Mt. Zion, and has recorded the fair market value of the office space as an in-kind donation of \$29,627 in 2012 and 2011, which is included in contributions. In addition, Mt. Zion contributed \$8,281 and \$7,526 in employee benefits to the Corporation in 2012 and 2011, respectively (see Note 7).

(12) Grants

On April 30, 2010, the Corporation entered into a \$70,000 grant agreement with the Metropolitan Development and Housing Agency (MDHA). Funding for this grant came from the Department of Housing and Urban Development's HOME Investment Partnerships Program (HOME) set aside for Community Housing Development Organizations (CHDO). Under the grant agreement, the Corporation is to use these funds to acquire and rehabilitate one single family home for affordable rental housing. The Corporation closed on this new home in early 2011. Under the terms of the grant agreement, the Corporation has agreed to repay MDHA the full allocation of CHDO funds if the property is sold during the "affordability period" (15 years from date of project completion). However, the Corporation has classified the property as held for lease and does not anticipate that the house will be sold during the "affordability period" and, therefore, no liability is reflected on these financial statements.

On July 1, 2010, the Corporation entered into a \$181,900 grant agreement with the Tennessee Housing Development Agency (THDA). The grant period ends June 30, 2013. Under the grant agreement, the Corporation will use THDA Housing Trust Funds to acquire and rehabilitate three units of rental housing in Davidson County for very low income households. THDA agreed to a modification of the agreement terms in 2011 to provide leverage funding for a new larger housing initiative under the federal Neighborhood Stabilization program. The Corporation purchased and rehabilitated one house under this grant agreement in 2012 and one house in 2011.

On April 15, 2011, the Corporation entered into a sub-developer agreement with The Fifteenth Avenue Baptist Community Development Corporation (the Developer) and MDHA. Under this agreement, the Developer engaged the Corporation as a developer to acquire, rehabilitate, and redevelop multiple residential units in target areas. The Corporation will receive Neighborhood Stabilization Program 2 (NSP2) funds up to \$750,000 for the acquisition and redevelopment of property and related expenses eligible for funding under the NSP2 program. Funds do not have to be paid back as long as the properties are maintained for low income housing during the 15 year "affordability period." In 2012 and 2011, the Corporation earned a developer fee of \$14,923 and

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\$31,321, respectively, based on 8% of the total NSP2 costs, which is included in grant income. The Corporation purchased two and six homes under this grant agreement in 2012 and 2011, respectively. The Corporation has classified the properties as held for lease and does not anticipate that the houses will be sold during the “affordability period” and therefore, no liability is reflected on these financial statements.

(13) Subsequent Events

On April 12, 2013, the Corporation entered into a grant agreement totaling \$599,749 from MDHA from the HOME Investment Partnership program to be utilized in the construction of the Corporation’s Permanent Supportive Housing Project which consists of four new duplexes. The Corporation executed a contract on April 5, 2013 to purchase land for this program for \$65,000. The Corporation has until August 27, 2013 to purchase the land.

On June 28, 2013, the Corporation received a contingent award from HUD for the period of October 2012 to September 2013. Since the award is contingent as of the date of this report, no revenue has been accrued.