

**THE NEXTDOOR, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2009 AND 2008**

THE NEXTDOOR, INC.

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## Independent Auditors' Report

Board of Directors  
The Nextdoor, Inc.  
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Nextdoor, Inc. (the "Organization") as of December 31, 2009 and 2008, and the related statements of activities, cash flows and functional expenses 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 audits 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 The Nextdoor, Inc. at December 31, 2009 and 2008, and the changes 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.

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
July 7, 2010

THE NEXTDOOR, INC.  
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 286,103	\$ 291,323
Government grants receivable	79,710	89,016
Land, building and equipment, net	<u>1,542,997</u>	<u>1,626,603</u>
Total assets	<u>\$1,908,810</u>	<u>\$2,006,942</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 20,544	\$ 19,270
Notes payable	<u>257,634</u>	<u>217,703</u>
Total liabilities	<u>278,178</u>	<u>236,973</u>

NET ASSETS

Unrestricted	1,511,849	1,646,811
Temporarily restricted	<u>118,783</u>	<u>123,158</u>
Total net assets	<u>1,630,632</u>	<u>1,769,969</u>
Total liabilities and net assets	<u>\$1,908,810</u>	<u>\$2,006,942</u>

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.  
STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE:</b>			
Support:			
Contributions	\$ 432,979	\$ 10,000	\$ 442,979
Grants	<u>594,575</u>	<u>-</u>	<u>594,575</u>
Total support	<u>1,027,554</u>	<u>10,000</u>	<u>1,037,554</u>
Revenue:			
Rental income	213,273	-	213,273
Interest income	1,289	249	1,538
Other income	<u>7,200</u>	<u>-</u>	<u>7,200</u>
Total revenue	<u>221,762</u>	<u>249</u>	<u>222,011</u>
Net assets released from restriction	<u>14,624</u>	<u>( 14,624)</u>	<u>-</u>
Total support and revenue	<u>1,263,940</u>	<u>( 4,375)</u>	<u>1,259,565</u>
<b>EXPENSES:</b>			
Program services:			
Counseling	207,994	-	207,994
Housing and ministry	<u>791,920</u>	<u>-</u>	<u>791,920</u>
Total program services	<u>999,914</u>	<u>-</u>	<u>999,914</u>
Supporting services:			
Administrative	312,654	-	312,654
Fund raising	<u>86,334</u>	<u>-</u>	<u>86,334</u>
Total supporting services	<u>398,988</u>	<u>-</u>	<u>398,988</u>
Total expenses	<u>1,398,902</u>	<u>-</u>	<u>1,398,902</u>
Net (decrease) increase in net assets	( 134,962)	( 4,375)	( 139,337)
Net assets at beginning of year	<u>1,646,811</u>	<u>123,158</u>	<u>1,769,969</u>
Net assets at end of year	<u>\$ 1,511,849</u>	<u>\$ 118,783</u>	<u>\$ 1,630,632</u>

<u>Year Ended December 31, 2008</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 481,874	\$100,000	\$ 581,874
<u>654,288</u>	<u>-</u>	<u>654,288</u>
<u>1,136,162</u>	<u>100,000</u>	<u>1,236,162</u>
207,943	-	207,943
4,687	108	4,795
<u>9,797</u>	<u>-</u>	<u>9,797</u>
<u>222,427</u>	<u>108</u>	<u>222,535</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>1,358,589</u>	<u>100,108</u>	<u>1,458,697</u>
274,700	-	274,700
<u>864,685</u>	<u>-</u>	<u>864,685</u>
<u>1,139,385</u>	<u>-</u>	<u>1,139,385</u>
273,714	-	273,714
<u>75,207</u>	<u>-</u>	<u>75,207</u>
<u>348,921</u>	<u>-</u>	<u>348,921</u>
<u>1,488,306</u>	<u>-</u>	<u>1,488,306</u>
( 129,717)	100,108	( 29,609)
<u>1,776,528</u>	<u>23,050</u>	<u>1,799,578</u>
<u>\$ 1,646,811</u>	<u>\$123,158</u>	<u>\$ 1,769,969</u>

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.  
STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$(139,337)	\$ ( 29,609)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	83,606	80,608
Decrease (increase) in government grants receivable	9,306	( 39,542)
Increase in accounts payable	<u>1,274</u>	<u>15,415</u>
Net cash (used in) provided by operating activities	<u>( 45,151)</u>	<u>26,872</u>
Cash flows from investing activities:		
Purchases of land, building and equipment	<u>-</u>	<u>( 72,618)</u>
Net cash used in investing activities	<u>-</u>	<u>( 72,618)</u>
Cash flows from financing activities:		
Principal payments on note payable	( 10,069)	( 8,222)
Proceed from borrowings	<u>50,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>39,931</u>	<u>( 8,222)</u>
Net decrease in cash	( 5,220)	( 53,968)
Cash and cash equivalents at beginning of year	<u>291,323</u>	<u>345,291</u>
Cash and cash equivalents at end of year	<u>\$ 286,103</u>	<u>\$ 291,323</u>

Supplemental cash flow information:

Cash paid for interest totaled \$12,259 and \$15,090 for the years ended December 31, 2009 and 2008, respectively.

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2009

	<u>Program Services</u>	
	<u>Counseling</u>	<u>Housing and Ministry</u>
Total salaries, wages and benefits	<u>\$207,652</u>	<u>\$363,392</u>
Other expenses:		
Counseling	-	-
Rent	-	41,612
Other program expenses	-	76,714
Utilities	-	71,759
Maintenance	-	49,936
Provision for depreciation	-	75,245
Telephone	-	30,358
Resident outfitting	-	756
Resident meals	-	10,721
Automobile expenses	-	6,674
Insurance	-	11,129
Travel and entertainment	-	4,967
Supplies	-	31,703
Professional fees	-	12,318
Dues and subscriptions	-	2,439
Postage and delivery	-	1,427
Marketing	-	-
Training and support services	<u>342</u>	<u>770</u>
Total other expenses	<u>342</u>	<u>428,528</u>
 Total program expenses	 <u>\$207,994</u>	 <u>\$791,920</u>



Supporting Services

<u>Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$259,565</u>	<u>\$34,609</u>	<u>\$ 865,218</u>
-	-	-
1,734	-	43,346
7,671	11,507	95,892
7,973	-	79,732
5,548	-	55,484
8,361	-	83,606
2,361	1,012	33,731
-	-	756
-	-	10,721
-	-	6,674
1,447	-	12,576
386	166	5,519
3,754	6,257	41,714
13,003	8,897	34,218
163	108	2,710
259	908	2,594
-	22,700	22,700
429	170	1,711
<u>53,089</u>	<u>51,725</u>	<u>533,684</u>
<u>\$312,654</u>	<u>\$86,334</u>	<u>\$1,398,902</u>

See accompanying notes to the financial statements.

THE NEXTDOOR, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2008

	<u>Program Services</u>	
	<u>Counseling</u>	<u>Housing and Ministry</u>
Total salaries, wages and benefits	<u>\$274,700</u>	<u>\$413,348</u>
Other expenses:		
Counseling	-	-
Rent	-	50,250
Other program expenses	-	26,749
Utilities	-	78,801
Maintenance	-	58,056
Provision for depreciation	-	76,578
Telephone	-	19,855
Resident outfitting	-	16,093
Resident meals	-	12,028
Automobile expenses	-	3,582
Insurance	-	3,441
Travel and entertainment	-	-
Supplies	-	56,872
Professional fees	-	-
Dues and subscriptions	-	-
Postage and delivery	-	744
Marketing	-	2,825
Training and support services	-	45,463
Total other expenses	<u>-</u>	<u>451,337</u>
Total program expenses	<u>\$274,700</u>	<u>\$864,685</u>

Supporting Services

<u>Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
<u>\$165,146</u>	<u>\$ 8,205</u>	<u>\$ 861,399</u>
204	-	204
1,962	5,916	58,128
10,499	5,071	42,319
4,928	-	83,729
18,624	-	76,680
4,030	-	80,608
17,862	-	37,717
-	-	16,093
-	-	12,028
1,596	-	5,178
11,928	-	15,369
2,049	3,213	5,262
18,475	-	75,347
6,375	10,428	16,803
1,028	2,376	3,404
571	1,544	2,859
7,395	38,331	48,551
<u>1,042</u>	<u>123</u>	<u>46,628</u>
<u>108,568</u>	<u>67,002</u>	<u>626,907</u>
<u>\$273,714</u>	<u>\$75,207</u>	<u>\$1,488,306</u>

See accompanying notes to financial statements.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Nextdoor, Inc., (the “Organization”) is a not-for-profit organization incorporated in 2003 to provide physical, emotional, and spiritual support to women at their point of need. The Organization provides these women with transitional living and supportive services such as skills training and counseling services.

Accrual Basis and Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization classifies its revenue, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. The Organization has no permanently restricted net assets as of December 31, 2009 and 2008.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Land, Building and Equipment

Land, building and equipment are stated at cost, or if contributed, at fair market value at date of gift. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty years. Leasehold improvements are depreciated over the estimated useful life of the property, or over the expected term of the lease, whichever is shorter. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the financial statements.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The most significant area is the recovery period for the building, leasehold improvements and equipment. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purpose of the statements of cash flows, the Organization considers all cash and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Fair Value Measurements

Assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by ASC 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Organization's financial instruments consist of government grants receivable, accounts payable and accrued expenses, and notes payable. The recorded values of receivables, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The carrying value of the notes payable is not materially different from the estimated fair value of these instruments.

Recent Accounting Pronouncements

On July 1, 2009, the Organization adopted new guidance related to the codification of accounting standards and the hierarchy of GAAP, established by the FASB. This accounting guidance established two levels of GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification ("ASC") is the source of authoritative, nongovernmental GAAP. All other accounting literature is nonauthoritative. There was no impact on the financial statements upon adoption of this standards. References to GAAP within the notes to the financial statements have been updated to reflect the ASC.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

ASC 855, *Subsequent Events*, was issued in June 2009 to establish general standards of accounting for a disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. This statement became effective for periods ending after June 15, 2009 (See Note K).

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

B. GOVERNMENT GRANTS RECEIVABLE

Government grants receivable are due within one year of December 31, 2009 and 2008. No allowance for uncollectible accounts was considered necessary as of December 31, 2009 and 2008.

C. LAND, BUILDING AND EQUIPMENT

Land, building and equipment at December 31, 2009 and 2008, consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 132,450	\$ 132,450
Building	956,599	956,599
Leasehold improvements	533,776	533,776
Furniture and fixtures	75,158	75,158
Equipment and computers	<u>91,576</u>	<u>91,576</u>
	1,789,559	1,789,559
Less: Accumulated depreciation	<u>( 246,562)</u>	<u>( 162,956)</u>
	<u>\$ 1,542,997</u>	<u>\$ 1,626,603</u>

Depreciation expense for the years ended December 31, 2009 and 2008 totaled \$83,606 and \$80,608, respectively.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

D. NOTES PAYABLE

A summary of notes payable at December 31, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Note payable due in monthly principal and interest installments of \$1,866 at 5.75% through February 2023. This note is collateralized by the land and building of the Organization.	\$207,634	\$217,703
Note payable to THDA due in November 2010. This note is a non-interest bearing instrument.	25,000	-
Note payable to an individual due in May 2010. This note bears interest at 2.00%.	<u>25,000</u>	<u>-</u>
	<u>\$257,634</u>	<u>\$217,703</u>

The future note payable maturities are as follows:

2010	\$ 60,997
2011	11,647
2012	12,334
2013	13,062
2014	13,834
Thereafter	<u>145,760</u>
Total	<u>\$257,634</u>

During April 2010, the Organization entered into a debt agreement with a related party in the amount of \$50,000. This instrument bears interest at 1.50% and is due December 31, 2010.

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets released from donor restrictions for the years ended December 31, 2009 and 2008 were \$14,624 and \$-0- respectively, by incurring costs and expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Temporarily restricted net assets totaled \$118,783 and \$123,158 as of December 31, 2009 and 2008, respectively, and are restricted for the purchase of capital assets and renovation of certain facilities.



THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

F. LEASES

The Organization leases certain office equipment. Rent expense under the operating lease for the years ended December 31, 2009 and 2008, was \$6,220 and \$1,966, respectively. A summary of future minimum rental payments required under the non-cancellable operating leases is as follows:

Years Ending December 31,

2010	\$ 9,699
2011	9,699
2012	8,156
2013	<u>1,780</u>
	<u>\$29,334</u>

During January and February 2010 the Organization entered into two non-cancellable lease agreements for housing complexes in Knoxville and Chattanooga. The aggregate future minimum lease payments under these agreements total approximately \$858,000 payable through 2020. In April 2010, the Organization entered into an agreement providing it with an option to purchase the Knoxville facility. The option expires April 2012.

G. ADVERTISING COSTS

The Organization expenses the cost of advertising and marketing when incurred, which totaled \$22,700 and \$48,551 for the years ended December 31, 2009 and 2008, respectively.

H. GIFTS IN KIND

The Organization records donated materials and services at fair value on the date of donation. The Organization recorded donated materials and supplies with fair values of \$26,623 and \$26,660 for the years ended December 31, 2009 and 2008, respectively.

In addition, The Nextdoor, Inc., leases a building from a related party. The lease arrangement with the related party provides The Nextdoor, Inc. with certain contributed rent concessions. These concessions were recorded as contributions and rent expense on the statement of activities at their estimated fair value of \$42,000 for each of the years ended December 31, 2009 and 2008.

THE NEXTDOOR, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008

I. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in high credit quality financial institutions at balances which, at times, may be uninsured or may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to a significant concentration of risk on cash. An accounting risk also extends to receivables, all of which are uncollateralized.

J. COMMITMENTS AND CONTINGENCIES

The Organization has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditures disallowance under terms of the grants, management believes any required reimbursements would not be material to the financial statements of the Organization.

K. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 7, 2010, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure, except for the new lease agreements as discussed in Note F and the new debt agreement as discussed in Note D.