

**URBAN HOUSING SOLUTIONS, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORTS**

**DECEMBER 31, 2012 AND 2011**

# URBAN HOUSING SOLUTIONS, INC.

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**BELLENFANT + MILES, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Urban Housing Solutions, Inc.  
Nashville, Tennessee

***Report on the Financial Statements***

We have audited the accompanying financial statements of Urban Housing Solutions, Inc. ("UHS"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Urban Housing Solutions, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program services revenues and expenses for 2012 and 2011 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2013, on our consideration of Urban Housing Solutions, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Urban Housing Solutions, Inc.'s internal control over financial reporting and compliance.

*Bellenfant & Miles, PLLC*

September 17, 2013

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

**ASSETS**

	<b><u>2012</u></b>	<b><u>2011</u></b>
Cash	\$ 1,385,486	\$ 684,130
Restricted cash:		
Tenant security deposits	150,516	135,800
Replacement reserves	188,837	398,139
Accounts receivable:		
Grants	155,969	119,479
Consortium Agreement	951,678	134,437
Tenants, net of doubtful accounts	212,756	119,562
Other	19,079	-
Due from Mercury Court Apartments, LP	9,295	24,610
Prepaid expenses, deposits and other	8,000	28,813
Investment in Mercury Court Apartments, LP	70,000	70,000
Property and equipment - net of accumulated depreciation	28,598,199	25,818,104
Loan closing costs, net of accumulated amortization of \$ 101,453 and \$ 106,210 for 2012 and 2011.	108,288	102,584
<b>TOTAL ASSETS</b>	<b><u>\$ 31,858,103</u></b>	<b><u>\$ 27,635,658</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 926,947	\$ 169,080
Accrued payments in lieu of tax (PILOT) and property taxes payable	13,258	256,768
Tenant security deposits payable	182,274	164,338
Unearned revenue	38,657	48,417
Notes payable	8,486,904	7,935,902
<b>TOTAL LIABILITIES</b>	<b><u>9,648,040</u></b>	<b><u>8,574,505</u></b>

**NET ASSETS**

**Unrestricted:**

Undesignated	2,098,627	1,148,286
Property and equipment	20,111,295	17,882,202

Total unrestricted 22,209,922 19,030,488

Temporarily restricted 141 30,665

**TOTAL NET ASSETS 22,210,063 19,061,153**

**TOTAL LIABILITIES AND NET ASSETS \$ 31,858,103 \$ 27,635,658**

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

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011**

	2012			2011		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUES</b>						
Public Support:						
Individual and corporate gifts	\$ 25,595	\$ 141	\$ 25,736	\$ 39,766	\$ -	\$ 39,766
Grants:						
Government	647,922	-	647,922	1,008,900	-	1,008,900
Foundation	94,800	-	94,800	44,000	30,165	74,165
Other	26,548	-	26,548	20,934	500	21,434
Consortium Agreement	3,361,811	-	3,361,811	3,701,736	-	3,701,736
Total public support	4,156,676	141	4,156,817	4,815,336	30,665	4,846,001
Revenues:						
Rental income	3,652,650	-	3,652,650	3,365,864	-	3,365,864
Laundry and vending machine income	28,949	-	28,949	27,539	-	27,539
Investment income	1,626	-	1,626	6,617	-	6,617
Developer fees	269,061	-	269,061	281,101	-	281,101
Insurance proceeds	113,341	-	113,341	3,734	-	3,734
Management fees	9,333	-	9,333	9,120	-	9,120
Miscellaneous	65,606	-	65,606	47,171	-	47,171
Freedom recovery	10,178	-	10,178	23,402	-	23,402
Special events	41,250	-	41,250	47,760	-	47,760
Net assets released from restrictions:						
Satisfaction of time and purpose restrictions	30,665	(30,665)	-	10,000	(10,000)	-
<b>TOTAL SUPPORT AND REVENUES</b>	<b>8,379,335</b>	<b>(30,524)</b>	<b>8,348,811</b>	<b>8,637,644</b>	<b>20,665</b>	<b>8,658,309</b>
<b>EXPENSES</b>						
Program services:						
Rental projects	3,795,724	-	3,795,724	4,006,524	-	4,006,524
Resident support programs	1,171,341	-	1,171,341	778,398	-	778,398
Total program services	4,967,065	-	4,967,065	4,784,922	-	4,784,922
Supporting services:						
Management and general	232,836	-	232,836	201,121	-	201,121
<b>TOTAL EXPENSES</b>	<b>5,199,901</b>	<b>-</b>	<b>5,199,901</b>	<b>4,986,043</b>	<b>-</b>	<b>4,986,043</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,179,434</b>	<b>(30,524)</b>	<b>3,148,910</b>	<b>3,651,601</b>	<b>20,665</b>	<b>3,672,266</b>
NET ASSETS - BEGINNING OF YEAR	19,030,488	30,665	19,061,153	15,378,887	10,000	15,388,887
NET ASSETS - END OF YEAR	\$ 22,209,922	\$ 141	\$ 22,210,063	\$ 19,030,488	\$ 30,665	\$ 19,061,153

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

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>PROGRAM SERVICES</b>			<b>SUPPORTING SERVICES</b>	
	<b>RENTAL PROJECTS</b>	<b>RESIDENT SUPPORT PROGRAMS</b>	<b>TOTAL</b>	<b>MANAGEMENT AND GENERAL</b>	<b>TOTAL</b>
Payroll and related expenses	\$ 869,515	\$ 643,162	\$ 1,512,677	\$ 130,059	\$ 1,642,736
Advertising	-	-	-	1,494	1,494
Contract services	504,043	10,830	514,873	-	514,873
Insurance	154,517	72,848	227,365	2,422	229,787
Interest	98,015	-	98,015	-	98,015
Legal and professional	4,527	2,921	7,448	18,911	26,359
Miscellaneous	4,940	4,977	9,917	19,778	29,695
Printing and postage	6,258	3,039	9,297	831	10,128
Repairs and maintenance	198,520	11,222	209,742	239	209,981
Social program funds	59,445	16,374	75,819	112	75,931
Special events	-	-	-	41,251	41,251
Supplies	14,394	6,592	20,986	2,331	23,317
Taxes and licenses	124,468	41,356	165,824	892	166,716
Telephone	22,055	11,175	33,230	1,108	34,338
Travel	38,751	15,606	54,357	3,511	57,868
Utilities	701,789	16,773	718,562	-	718,562
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>2,801,237</b>	<b>856,875</b>	<b>3,658,112</b>	<b>222,939</b>	<b>3,881,051</b>
Depreciation and amortization	994,487	314,466	1,308,953	9,897	1,318,850
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 3,795,724</b>	<b>\$ 1,171,341</b>	<b>\$ 4,967,065</b>	<b>\$ 232,836</b>	<b>\$ 5,199,901</b>

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

**URBAN HOUSING SOLUTIONS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>PROGRAM SERVICES</b>			<b>SUPPORTING SERVICES</b>	<b>TOTAL</b>
	<b>RENTAL PROJECTS</b>	<b>RESIDENT SUPPORT PROGRAMS</b>	<b>TOTAL</b>	<b>MANAGEMENT AND GENERAL</b>	
Payroll and related expenses	\$ 963,308	\$ 556,839	\$ 1,520,147	\$ 101,595	\$ 1,621,742
Advertising	5,152	2	5,154	-	5,154
Contract services	534,381	3,721	538,102	-	538,102
Insurance	114,560	47,807	162,367	1,006	163,373
Interest	164,686	-	164,686	-	164,686
Legal and professional	9,224	3,739	12,963	21,222	34,185
Miscellaneous	4,309	1,880	6,189	3,353	9,542
Printing and postage	3,720	1,912	5,632	146	5,778
Repairs and maintenance	253,210	3,037	256,247	158	256,405
Social program funds	50,030	11,482	61,512	-	61,512
Special events	-	-	-	47,760	47,760
Supplies	19,601	7,898	27,499	1,432	28,931
Taxes and licenses	205,517	32,168	237,685	504	238,189
Telephone	19,078	9,345	28,423	812	29,235
Travel	33,370	21,265	54,635	1,086	55,721
Utilities	683,537	7,371	690,908	-	690,908
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION AMORTIZATION</b>	<b>3,063,683</b>	<b>708,466</b>	<b>3,772,149</b>	<b>179,074</b>	<b>3,951,223</b>
Depreciation and amortization	942,841	69,932	1,012,773	22,047	1,034,820
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 4,006,524</b>	<b>\$ 778,398</b>	<b>\$ 4,784,922</b>	<b>\$ 201,121</b>	<b>\$ 4,986,043</b>

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

**URBAN HOUSING SOLUTIONS**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets:	\$ 3,148,910	\$ 3,672,266
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,318,850	1,034,820
(Increase) decrease in:		
Restricted deposits	194,586	(30,603)
Accounts receivable:		
Grants	(36,490)	(42,510)
Consortium agreement	(817,241)	(35,547)
Tenants	(93,194)	(37,671)
Other	(19,079)	-
Insurance receivable	-	29,695
Other assets	36,128	(35,260)
Increase (decrease) in:		
Accounts payable and accrued expenses	757,867	9,221
Tenant security deposits payable	17,936	32,467
Unearned revenue	(9,760)	(11,444)
Accrued payments in lieu of tax (PILOT) and property taxes payable	(243,510)	160,564
Net cash provided by operating activities	<u>4,255,003</u>	<u>4,745,998</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,053,747)	(4,273,382)
Net cash used by investing activities	<u>(4,053,747)</u>	<u>(4,273,382)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Loan closing costs incurred	(50,902)	(37,382)
Proceeds from notes payable	2,345,000	1,370,000
Principal payments on notes payable	(1,793,998)	(2,016,635)
Net cash (used) provided by financing activities	<u>500,100</u>	<u>(684,017)</u>
NET INCREASE (DECREASE) IN CASH	701,356	(211,401)
CASH - BEGINNING OF YEAR	<u>684,130</u>	<u>895,531</u>
CASH - END OF YEAR	<u><u>\$ 1,385,486</u></u>	<u><u>\$ 684,130</u></u>

**Supplemental Information:**

Interest expense of \$98,015 was paid in 2012 and \$164,686 in 2011.

Closing costs of \$50,902 were capitalized during 2012 and added to principal of notes payable.

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

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**Organization and Purpose:**

Urban Housing Solutions, Inc. ("UHS") was founded in 1991 as a Tennessee not-for-profit corporation. UHS provides affordable rental housing and social services for low-income residents of Nashville, primarily those with special needs.

**Basis of Presentation:**

Urban Housing Solutions, Inc. prepares its financial statements and maintains its financial accounting records on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic related to Presentation of Financial Statements of Not-for-Profit Organizations. Under the FASB Accounting Standards Codification, UHS is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*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 UHS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. UHS had temporarily restricted net assets of \$141 and \$30,665, for the years ended December 31, 2012 and 2011, respectively.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that may be maintained permanently by UHS. Generally donors of these assets permit UHS to use all or part of the income earned for general or specific purposes. UHS had no permanently restricted net assets for the years ended December 31, 2012 and 2011, respectively.

**Contributions and support:**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - continued**

**Contributions and support - continued**

UHS also receives grant revenue from various federal, state and local agencies, principally from the U.S. Department of Housing and Urban Development and the Metropolitan Development and Housing Agency. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to recognition are recorded initially as deferred revenue.

UHS reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

**Income taxes**

UHS has been determined by the Internal Revenue Service to be exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

UHS has evaluated its tax position in accordance with the Codification Standard relating to Accounting for Uncertainty in Income Taxes. UHS believes that it has taken no uncertain tax positions.

**Property and equipment**

Property and equipment are stated at acquisition costs, or estimated fair market value if donated, less accumulated depreciation. UHS Depreciation is computed on the straight-line method over estimated useful lives of three to ten years for furniture and equipment and fifteen to thirty years for buildings and improvements.

**Donated property and materials**

Donated items are recorded at their fair market value at the date of the gift.

**Donated services**

UHS's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

**Program and supporting services**

The following program and supporting services are included in the accompanying financial statements.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - continued**

**Program and supporting services - continued**

**Rental projects:**

**Mercury Courts** - provides 164 units of housing for formerly homeless and low-income adults, as well as access to the agency's shuttle service, on-site classes, service coordination, and health advocacy.

**Rex Courts** - provides 96 units of housing for low-income individuals and families.

**Greentree Terrace** - provides 56 units of housing for low-income individuals and families.

**Hope Terrace (formerly known as Centennial Commons), Crown Courts, and Vultee Gardens** - three properties that provide a total of 65 housing units for low-income individuals and families who are homeless and in recovery from drug and alcohol addiction. UHS's Journeys of Hope program provides supportive services for these residents.

**Fisk Court** - provides 18 units of affordable housing for low-income homeless adults.

**Russell Street** - provides 11 units of affordable rental housing for low-income individuals and families living with mental illness.

**Shelby Courtyards** - provides 11 units of housing for low-income adults and families.

**River Terrace** - provides 20 units of housing for low-income adults and families.

**Village Place** - provides 69 units of housing for low-income adults and families.

**Eastwood Courts** - provide 61 units of housing for low-income adults and families.

**Mercury North** - provides 32 units of housing for low-income, homeless adults and families.

**Lindsley** - provides dorm-style housing for the Building Lives program. Completed in early 2010.

**Porter East** - provides apartments for low-income adults and families, as well as space for a variety of small commercial enterprises. Phase I construction was completed in early 2011.

**Neely Meadows** - provides 148 units of housing for low-to-moderate income individuals and families.

**Neighborhood Stabilization Program II** - there are thirteen properties that were purchased to rehabilitate the neighborhoods.

**Resident support programs:**

**Service Coordinator Program** - provides the social work staff that is essential to assess and assist the formerly homeless residents of Fisk Court and Mercury Courts. Service coordinators provide referrals to community services, and assist residents in obtaining employment.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - continued**

**Resident support programs continued:**

**Journeys of Hope Program** - provides addiction recovery services to residents living in 65 units of housing in three different properties - Vultee Gardens, Crown Courts, and Hope Terrace. In addition to weekly group meetings and regular drug testing, residents also have access to a full-time addictions specialist.

**Client Fund Program** - provides direct financial assistance to residents in order to meet their transportation, healthcare, or other emergency needs. The fund covers the cost of the resident shuttle, bus passes, medical and dental co-pays, food, and basic starter household supplies for many of the agency's formerly homeless residents.

**Health Matters** - offers a full-time health advocate, health-related workshops, and semiannual health fairs for UHS residents - primarily to those living at Mercury Courts and The Park. The program helps to connect residents to primary care physicians, insurance and prescription assistance programs, and wellness programs in order to reduce dependency on emergency services and improve health outcomes.

**HOPWA (Housing Opportunities for Persons with AIDS)** - provides subsidized rent and case management for UHS residents living with HIV/AIDS.

**Permanent Supportive Housing Program** - provides subsidized rent and case management services for people who are homeless and disabled.

**SOAR Supportive Housing Program** - provides subsidized rent and supportive services for people who have applied for SSI/SSDI through the SOAR process.

**Transitional Supportive Housing Program** - provides up to 24 months of subsidized rent and case management for people who are homeless.

**Management and general** - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program or fund-raising activity. Includes costs associated with providing coordination and articulation of UHS's program strategy, business management, general record keeping, budgeting and related purposes.

**Allocation of functional expenses**

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - continued**

**Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for uncollectible accounts/bad debts**

At the end of each year, management reviews accounts receivable in detail and writes off any account that is deemed uncollectible. Based on assessment of specific accounts and historical collection experience of rental income, an allowance for uncollectible accounts was considered to be 20% of total balance as of December 31, 2012 and 2011, which was \$47,962 and \$28,473, respectively.

**2. GRANTS RECEIVABLE**

Grants receivable consists of receivables from programs funded by the U.S. Department of Housing and Urban Development ("HUD") and the Metropolitan Development and Housing Agency ("MDHA"). Financial activities of those programs are summarized in the schedule of expenditures of federal awards.

**3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of December 31:

	2012	2011
Land	\$ 4,232,649	\$ 4,090,786
Building and improvements	29,369,243	26,442,271
Furniture and equipment	2,472,927	1,488,015
	<u>36,074,819</u>	<u>32,021,072</u>
Less accumulated depreciation	(7,476,621)	(6,202,968)
	<u><u>\$ 28,598,198</u></u>	<u><u>\$ 25,818,104</u></u>

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by UHS in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, investments, accounts receivable, prepaid expenses, accounts payables, unearned revenue and accrued expenses: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**5. NOTES PAYABLE**

Notes payable consist of the following at December 31:	<u><b>2012</b></u>	<u><b>2011</b></u>
Mortgage payable - Pinnacle Bank (4.25%); payable in monthly installments of \$552 beginning October 2008 through September 2018; secured by real estate at Mercury Courts.	\$ 33,653	\$ 38,699
Note payable - Renasant Bank (prime rate less 4.00%); payable in monthly principal and interest payments of \$3,439 beginning November 2011, final balloon payment for balance due October 2016; secured by real estate.	778,931	820,201
Note payable - Pinnacle (index rate less 4.00%); payable in monthly principal and interest payments of \$1,958, beginning October 2011; final balloon payment for balance due October 2016; secured by real estate.	440,625	464,125
Note payable - Pinnacle Bank (index rate - 4%); payable in monthly principal and interest payment of \$5,363 beginning of October 2008, final balloon payment for the balance due August 2017; secured by real estate at Mercury Courts.	943,938	1,019,735
Note payable - Avenue Bank (prime rate - 2.00%); payable in monthly principal and interest payments of \$2,778 beginning March 2011, through February 2016; secured by real estate.	-	497,222
Note payable - Regions Bank (3.50%); payable in monthly principal and interest payment of \$5,751 beginning March 2010, final balloon payment for balance due August 2021; secured by real estate.	507,738	557,716
Note payable - Bank of TN (prime rate - 2%); payable in monthly principal payment of \$1,890 plus interest beginning February 2011, final balloon payment for balance due January 2026; secured by real estate.	-	317,320

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**5. NOTES PAYABLE - continued**

	<b><u>2012</u></b>	<b><u>2011</u></b>
Note payable - Bank of TN (prime rate - 2%); payable in monthly principal payment of \$7,640 plus interest beginning February 2011, final balloon payment for balance due January 2026; secured by real estate.	1,191,640	1,283,320
Note payable - Bank of TN (prime rate - 2%); payable in monthly principal payment of \$6,390 plus interest beginning February 2011, final balloon payment for balance due January 2026; secured by real estate.	996,640	1,073,320
Note payable - Pinnacle (index rate - 4%); payable in monthly principal and interest payment of \$7,095 beginning February 2010, then \$8,625 beginning February 2011, final balloon payment for balance due August 2017; secured by real estate.	1,248,739	1,327,842
Note payable - US Bank (prime rate); payable in monthly principal payment of \$2,639 plus interest beginning April 2010, final balloon payment for balance due March 2020; secured by real estate.	-	419,584
Note payable - US Bank (3.50%); payable in monthly principal and interest payment of \$905 beginning July 2010, final balloon payment for balance due June 2025; secured by real estate.	-	116,818
Note payable - Nashville Bank & Trust (prime rate - 4%); payable in monthly principal payment of \$1,334 plus interest, beginning February 2013, final balloon payment for balance due January 2018; secured by real estate.	320,000	-

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**5. NOTES PAYABLE - continued**

	<u><b>2012</b></u>	<u><b>2011</b></u>
Note payable - Nashville Bank & Trust (prime rate - 4%); payable in monthly principal payment of \$4,167 plus interest, beginning February 2013, final balloon payment for balance due January 2018; secured by real estate.	1,000,000	-
Note payable - Nashville Bank & Trust (prime rate - 4%); payable in interest only payments beginning February 2013 through July 2014. Monthly principle payment of \$3,241 plus interest, beginning August 2014; final balloon payment for balance due January 2018; secured by real estate.	525,000	-
Note payable - Nashville Bank & Trust (prime rate - 4%); payable in monthly principal payment of \$2,778 plus interest, beginning February 2013, final balloon payment for balance due January 2018; secured by real estate.	500,000	-
	<hr/>	<hr/>
Total Notes Payable	<u><u>\$ 8,486,904</u></u>	<u><u>\$ 7,935,902</u></u>

Annual principal maturities of notes payable as of December 31 are as follows:

2013	\$ 1,386,464
2014	470,904
2015	1,503,840
2016	836,000
2017 and thereafter	4,289,696
	<hr/>
	<u><u>\$ 8,486,904</u></u>

Interest expense of \$98,015 was paid in 2012 and \$164,686 in 2011.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**6. CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject UHS to concentrations of credit risk consist principally of grants and tenant accounts receivable. Tenant accounts receivable are widely dispersed to mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources.

UHS maintains deposit accounts with four financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. Excess uninsured balances of UHS approximated \$790,455 in 2012 and \$444,798 in 2011. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Foundation grants for tenant assistance and technology	<u>\$ 141</u>	<u>\$ 30,665</u>

**8. COMMITMENTS AND CONTINGENCIES**

**Federal and State Grants**

UHS received federal, state and local grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowances of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to the grantor.

**9. ACCRUED PAYMENTS IN LIEU OF TAXES (PILOT)**

UHS is not required to pay property taxes on several of its properties that have been granted property tax exempt status. Under this exempt status, UHS is required to make a payment in lieu of taxes (PILOT) to the city and county.

The Metropolitan Council approved the formula for calculating PILOT payments to be 25% of the normal property taxes. Accrued PILOT has been recorded as a liability in the amount of \$13,085 and \$35,208 for the years ended December 31, 2012 and 2011, respectively. PILOT expenses were \$41,474 and \$35,208 for the years ended December 31, 2012 and 2011, respectively.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**10. CONSORTIUM AGREEMENT**

UHS is a consortium member with Metropolitan Development and Housing Agency (MDHA) to implement the Neighborhood Stabilization Program 2 (NSP2) by conducting certain activities including:

- Acquisition and Rehab of Abandoned or Foreclosed Homes of Residential Properties,
- Redevelopment of Demolished or Vacant Property as Housing (New Construction).

**11. RELATED PARTY TRANSACTIONS**

In December 2001, UHS transferred property valued at \$70,000 to Mercury Court Apartments, LP a Tennessee limited partnership, for a .10% ownership interest through its wholly-owned subsidiary, The Park Development, Inc. The Park is the general partner in the partnership. UHS is the developer of the 20-unit multifamily residential project.

Mercury Courts Apartments, LP has entered into an agreement with UHS, in connection with the management of the rental operations of the project. In accordance with this agreement, UHS earns 10% of the gross operating revenues received from the preceding month. Management fees that UHS earned were \$9,333 in 2012 and \$9,120 in 2011. No operating income or loss passed through to UHS from the Partnership in 2012 or 2011.

Mercury Court Apartments, LP qualified 100% of the units for low income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. The applicable low-income housing tax credit will be available to the limited partner over a ten-year period. The units must meet the provisions of Section 42 of the Internal Revenue Code during the next fifteen years in order to remain qualified to receive the credits.

**12. COMPENSATED ABSENCES**

Employees of UHS are entitled to paid vacation days. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. UHS's policy is to recognize the cost of compensated absences when actually paid to employees.

**13. PENSION**

UHS maintains a 401(k) plan. Matching contributions are made on each employee's behalf up to 3.5% of compensation. Employees are eligible after ninety days of service. Total contributions were \$28,001 and \$27,857 for the years ended December 31, 2012 and 2011, respectively.

**URBAN HOUSING SOLUTIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2012 AND 2011**

**14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 17, 2013 which is the date the financial statements were available to be issued.

It was discovered in early 2013, after the rental manager resigned, that she was engaging in fraudulent activities. She was depositing checks and money orders made out to "UHS" into her personal account. She was entering credits to resident accounts in order to cover up the money orders and checks that were diverted to her account. The amount of money that was taken can not be determined at this time, as the investigation is still on-going.

Urban Housing Solutions, Inc. has enforced additional internal control procedures as a result of this fraudulent activity.

## **SUPPLEMENTAL INFORMATION**

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal /State/ Grantor/ Pass-Through Grantor Agency & Program Name	Federal CFDA #	Grant Number	Grant Period	Grant Amount	Grant Receivable 1/1/12	1/1/12 - 12/31/12 Receipts	Expenditures	Grant Receivable 12/31/12
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>								
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	01/01/11 - 12/31/11	97,831	18,538	18,538	-	-
Multifamily Housing Service Coordinator Program	14.191	TN43HS00004	05/01/12 - 04/30/13	95,332	-	84,245	104,430	20,185
Multifamily Housing Service Coordinator Program	14.191	TN43HS00005	03/01/12 - 02/28/13	278,958	4,451	25,384	25,688	4,755
** Supportive Housing Program	14.235	TN0163B4J041000	09/01/11 - 08/31/13	255,300	17,200	123,097	130,345	24,448
** Supportive Housing Program	14.235	TN0061B45T041003	04/01/11 - 03/31/12	229,830	37,985	95,766	57,781	-
** Supportive Housing Program	14.235	TN0061B45T041004	04/01/12 - 03/31/13	229,830	-	131,526	180,522	48,996
** Supportive Housing Program	14.235	TN0054B4J041001	09/01/11 - 07/31/12	119,000	14,819	70,980	56,161	-
** Supportive Housing Program	14.235	TN0054B4J041102	08/01/12 - 07/31/13	119,000	-	43,543	56,996	13,453
** Supportive Housing Program	14.235	TN0191B4J041100		262,784	-	7,128	21,141	14,013
<b>PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:</b>								
Housing Opportunities for Persons with AIDS	14.241	N/A	04/01/11 - 03/31/12	156,324	26,666	60,261	33,595	-
Housing Opportunities for Persons with AIDS	14.241	N/A	04/01/12 - 03/31/13	178,306	-	87,227	111,871	24,644
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					119,659	747,695	778,530	150,494
<b>STATE OF TENNESSEE REVENUE:</b>								
Tennessee Department of Health	N/A	N/A	07/01/12 - 06/30/13	45,000	-	2,125	7,600	5,475
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>					-	2,125	7,600	5,475
<b>TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS</b>					\$ 119,659	\$ 749,820	\$ 786,130	\$ 155,969

**Basis of presentation**

This schedule of expenditures of federal and state awards includes the federal and state grant activity of Urban Housing Solutions, Inc. and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

\*\* Tested as Major Program

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	PROGRAM SERVICES									
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	MERCURY NORTH	REX'S COURTYARD	VULTEE GARDENS
<b>REVENUES</b>										
Rental Income	\$ 51,335	\$ -	\$ 819,770	\$ 81,848	\$ 57,725	\$ 97,506	\$ 62,928	\$ 68,390	\$ 432,738	\$ 38,408
Grants	-	-	25,329	29,235	21,628	-	-	64,715	52,497	17,313
Other	719	-	13,250	3,963	2,329	2,158	719	2,753	11,109	1,031
<b>Total Revenues</b>	<b>52,054</b>	<b>-</b>	<b>858,349</b>	<b>115,046</b>	<b>81,682</b>	<b>99,664</b>	<b>63,647</b>	<b>135,858</b>	<b>496,344</b>	<b>56,752</b>
<b>EXPENSES</b>										
Payroll and related expenses	9,833	5,365	229,697	27,641	17,474	18,862	9,833	46,457	99,960	16,611
Advertising	-	-	-	-	-	-	-	-	-	-
Contract services	7,606	3,302	69,265	15,065	6,950	9,978	4,038	15,045	60,642	10,273
Insurance	1,737	1,124	21,075	4,376	3,251	2,373	1,906	7,514	19,148	2,572
Interest	-	-	10,006	-	3,883	-	-	-	13,189	-
Legal and professional	48	27	1,333	141	89	96	48	244	527	87
Miscellaneous	76	15	1,073	184	127	121	76	207	614	103
Printing and postage	74	13	1,721	205	133	139	74	321	727	120
Repairs and maintenance	2,620	4,442	38,905	4,601	4,871	3,362	4,113	6,568	20,237	2,391
Social program funds	411	-	9,811	2,773	1,403	651	411	2,325	7,709	1,420
Special events	-	-	-	-	-	-	-	-	-	-
Supplies	171	445	3,029	443	288	299	171	704	1,450	238
Taxes and licenses	3	-	55	3,131	2,950	879	3	-	8,072	2,504
Telephone	228	130	4,670	606	388	412	229	927	3,190	332
Travel	449	176	8,251	1,295	865	854	451	1,685	4,853	808
Utilities	204	8,609	159,990	23,979	10,090	21,066	11,061	37,937	147,498	9,068
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>23,460</b>	<b>23,648</b>	<b>558,881</b>	<b>84,440</b>	<b>52,762</b>	<b>59,092</b>	<b>32,414</b>	<b>119,934</b>	<b>387,816</b>	<b>46,527</b>
<b>BEFORE DEPRECIATION</b>										
REVENUE OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	28,594	(23,648)	299,468	30,606	28,920	40,572	31,233	15,924	108,528	10,225
Depreciation and amortization	9,931	18,075	105,640	24,200	29,318	12,736	19,206	69,211	65,844	25,153
<b>REVENUE OVER EXPENSES</b>	<b>\$ 18,663</b>	<b>\$ (41,723)</b>	<b>\$ 193,828</b>	<b>\$ 6,406</b>	<b>\$ (398)</b>	<b>\$ 27,836</b>	<b>\$ 12,027</b>	<b>\$ (53,287)</b>	<b>\$ 42,684</b>	<b>\$ (14,928)</b>

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	PROGRAM SERVICES								TOTAL
	GREENTREE TERRACE	RIVER TERRACE	PORTER EAST	NEELY	FREEDOM RECOVERY	EASTWOOD COURT	VILLAGE PLACE	LINDSLEY	RENTAL PROJECTS
<b>REVENUES</b>									
Rental Income	\$ 224,894	\$ 74,083	\$ 222,917	\$ 668,583	\$ -	\$ 278,664	\$ 323,897	\$ 31,638	\$ 3,535,324
Grants	20,918	13,525	8,034	31,824	-	17,191	4,361	-	306,570
Other	6,537	1,198	1,737	21,601	10,178	7,414	7,744	-	94,440
<b>Total Revenues</b>	<b>252,349</b>	<b>88,806</b>	<b>232,688</b>	<b>722,008</b>	<b>10,178</b>	<b>303,269</b>	<b>336,002</b>	<b>31,638</b>	<b>3,936,334</b>
<b>EXPENSES</b>									
Payroll and related expenses	59,645	17,477	52,224	144,197	-	55,603	56,540	2,096	869,515
Advertising	-	-	-	-	-	-	-	-	-
Contract services	25,772	11,941	17,588	129,483	4,477	53,327	53,400	3,674	501,826
Insurance	10,241	5,684	12,352	27,805	-	10,805	11,621	10,933	154,517
Interest	-	-	8,871	9,655	-	19,033	15,770	17,608	98,015
Legal and professional	311	89	207	708	-	284	278	10	4,527
Miscellaneous	359	127	175	834	-	392	438	19	4,940
Printing and postage	428	133	295	1,016	-	419	427	13	6,258
Repairs and maintenance	10,848	6,489	3,962	44,486	-	20,446	19,196	983	198,520
Social program funds	3,792	1,461	2,041	13,504	-	5,184	6,541	8	59,445
Special events	-	-	-	-	-	-	-	-	-
Supplies	903	290	731	2,039	1,230	904	1,030	29	14,394
Taxes and licenses	5,095	2,436	11,819	74,587	-	9,344	5,807	-	126,685
Telephone	1,198	385	3,512	3,260	-	1,226	1,309	53	22,055
Travel	2,832	859	1,542	8,413	-	2,679	2,629	110	38,751
Utilities	38,570	13,116	42,800	92,486	-	43,611	41,704	-	701,789
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>159,994</b>	<b>60,487</b>	<b>158,119</b>	<b>552,473</b>	<b>5,707</b>	<b>223,257</b>	<b>216,690</b>	<b>35,536</b>	<b>2,801,237</b>
REVENUE OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	92,355	28,319	74,569	169,535	4,471	80,012	119,312	(3,898)	1,135,097
Depreciation and amortization	55,733	17,402	162,408	181,138	-	61,535	70,431	66,526	994,487
<b>REVENUE OVER EXPENSES</b>	<b>\$ 36,622</b>	<b>\$ 10,917</b>	<b>\$ (87,839)</b>	<b>\$ (11,603)</b>	<b>\$ 4,471</b>	<b>\$ 18,477</b>	<b>\$ 48,881</b>	<b>\$ (70,424)</b>	<b>\$ 140,610</b>

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	SERVICE COORDINATOR PROGRAM	JOURNEYS OF HOPE PROGRAM	PROGRAM SERVICES							SUPPORTING SERVICES MANAGEMENT AND GENERAL	
			NEIGHBORHOOD STABILIZATION	MENTAL HEALTH	HEALTH MATTERS	CLIENT FUND PROGRAM	HOPWA	SUPPORTIVE HOUSING	VANDERBILT HEALTH	RESIDENT SUPPORT PROGRAMS	TOTAL
<b>REVENUES</b>											
Rental Income	\$ -	\$ -	\$ 117,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,326	\$ 3,652,650
Grants	143,263	13,242	-	19,423	51,600	5,800	20,026	155,267	19,079	427,700	734,270
Consortium Agreement	-	-	3,361,811	-	-	-	-	-	-	3,361,811	3,361,811
Other	-	-	310,707	-	400	14,095	-	7,268	-	332,470	426,910
<b>Total Revenues</b>	<b>143,263</b>	<b>13,242</b>	<b>3,789,844</b>	<b>19,423</b>	<b>52,000</b>	<b>19,895</b>	<b>20,026</b>	<b>162,535</b>	<b>19,079</b>	<b>4,239,307</b>	<b>8,175,641</b>
<b>EXPENSES</b>											
Payroll and related expenses	147,455	12,446	182,185	23,486	29,621	23,393	25,014	179,807	19,755	643,162	1,642,736
Advertising	-	-	-	-	-	-	-	-	-	-	1,494
Contract services	-	-	10,584	-	59	-	-	187	-	10,830	512,656
Insurance	5,608	880	55,736	942	1,201	1,388	1,027	5,673	393	72,848	229,787
Interest	-	-	-	-	-	-	-	-	-	-	98,015
Legal and professional	807	106	726	86	128	145	140	719	64	2,921	26,359
Miscellaneous	559	-	315	-	1,985	679	82	1,049	308	4,977	29,695
Printing and postage	705	58	785	90	138	179	134	872	78	3,039	10,128
Repairs and maintenance	119	38	3,460	38	32	29	28	7,478	-	11,222	209,981
Social program funds	232	1,826	2,972	-	6,462	1,828	58	2,996	-	16,374	75,931
Special events	-	-	-	-	-	-	-	-	-	-	41,251
Supplies	1,475	35	941	83	86	94	187	3,540	151	6,592	23,317
Taxes and licenses	-	-	41,356	-	-	-	-	-	-	41,356	168,233
Telephone	2,119	228	3,089	341	597	1,238	510	2,780	253	11,175	34,338
Travel	1,155	360	6,139	611	1,771	997	1,641	2,932	-	15,606	57,868
Utilities	-	-	8,432	-	-	150	-	8,191	-	16,773	718,562
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>160,234</b>	<b>15,977</b>	<b>316,720</b>	<b>25,677</b>	<b>42,080</b>	<b>30,140</b>	<b>28,821</b>	<b>216,224</b>	<b>21,002</b>	<b>856,875</b>	<b>3,881,051</b>
<b>REVENUE OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>(16,971)</b>	<b>(2,735)</b>	<b>3,473,124</b>	<b>(6,254)</b>	<b>9,920</b>	<b>(10,245)</b>	<b>(8,795)</b>	<b>(53,689)</b>	<b>(1,923)</b>	<b>3,382,432</b>	<b>4,467,760</b>
Depreciation and amortization	-	-	314,466	-	-	-	-	-	-	314,466	1,318,850
<b>REVENUE OVER EXPENSES</b>	<b>\$ (16,971)</b>	<b>\$ (2,735)</b>	<b>\$ 3,158,658</b>	<b>\$ (6,254)</b>	<b>\$ 9,920</b>	<b>\$ (10,245)</b>	<b>\$ (8,795)</b>	<b>\$ (53,689)</b>	<b>\$ (1,923)</b>	<b>\$ 3,067,966</b>	<b>\$ 3,148,910</b>

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	PROGRAM SERVICES									
	SHELBY COURTYARDS	WOODLAND	MERCURY COURTS	HOPE	CROWN COURTS	FISK	RUSSELL	MERCURY NORTH	REX'S COURTYARD	VULTEE GARDENS
<b>REVENUES</b>										
Rental Income	\$ 51,000	\$ -	\$ 801,588	\$ 67,024	\$ 61,791	\$ 102,571	\$ 65,766	\$ 74,465	\$ 444,072	\$ 38,154
Grants	-	-	25,000	20,961	20,033	-	-	148,780	44,335	19,608
Other	46	-	8,218	2,020	802	889	46	1,338	6,147	104
<b>Total Revenues</b>	<b>51,046</b>	<b>-</b>	<b>834,806</b>	<b>90,005</b>	<b>82,626</b>	<b>103,460</b>	<b>65,812</b>	<b>224,583</b>	<b>494,554</b>	<b>57,866</b>
<b>EXPENSES</b>										
Payroll and related expenses	13,558	6,136	272,209	34,106	21,831	23,081	13,567	56,546	99,169	16,284
Advertising	3	-	278	7	5	5	3	8	24	4
Contract services	7,734	495	88,364	16,429	8,326	9,816	5,646	18,657	76,775	14,194
Insurance	1,303	1,144	15,493	3,165	2,351	1,682	1,387	5,258	13,947	1,805
Interest	-	-	15,252	701	4,900	701	-	-	10,267	-
Legal and professional	90	44	2,244	194	124	131	90	373	563	93
Miscellaneous	48	-	657	115	79	75	47	139	370	62
Printing and postage	55	7	1,143	124	80	84	63	226	369	61
Repairs and maintenance	3,449	14	60,001	8,069	4,832	5,020	2,636	11,214	34,592	6,731
Social program funds	522	-	12,849	2,254	2,063	1,140	522	3,722	6,024	1,599
Special events	-	-	-	-	-	-	-	-	-	-
Supplies	263	49	4,585	639	419	428	263	1,016	1,954	321
Taxes and licenses	3	-	26	2,765	2,565	712	3	4,761	7,098	2,152
Telephone	209	818	3,839	528	330	361	208	789	3,039	259
Travel	550	140	5,331	1,518	1,013	998	551	998	3,188	531
Utilities	170	3,933	154,629	23,931	9,658	21,452	14,376	35,113	139,471	8,280
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>27,957</b>	<b>12,780</b>	<b>636,900</b>	<b>94,545</b>	<b>58,576</b>	<b>65,686</b>	<b>39,362</b>	<b>138,820</b>	<b>396,850</b>	<b>52,376</b>
<b>BEFORE DEPRECIATION</b>										
REVENUE OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	23,089	(12,780)	197,906	(4,540)	24,050	37,774	26,450	85,763	97,704	5,490
Depreciation and amortization	13,090	10,821	119,304	24,174	16,300	16,415	19,166	59,597	63,465	24,966
<b>REVENUE OVER EXPENSES</b>	<b>\$ 9,999</b>	<b>\$ (23,601)</b>	<b>\$ 78,602</b>	<b>\$ (28,714)</b>	<b>\$ 7,750</b>	<b>\$ 21,359</b>	<b>\$ 7,284</b>	<b>\$ 26,166</b>	<b>\$ 34,239</b>	<b>\$ (19,476)</b>

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PROGRAM SERVICES REVENUES AND EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	PROGRAM SERVICES								TOTAL RENTAL PROJECTS
	GREENTREE TERRACE	RIVER TERRACE	PORTER EAST	NEELY	FREEDOM RECOVERY	EASTWOOD COURT	VILLAGE PLACE	LINDSLEY	
<b>REVENUES</b>									
Rental Income	\$ 238,470	\$ 67,676	\$ 129,068	\$ 510,360	\$ -	\$ 290,584	\$ 315,475	\$ 43,778	\$ 3,301,842
Grants	22,974	3,743	432,681	4,417	-	1,867	5,578	-	749,977
Other	2,394	47	2,058	2,431	23,402	4,187	3,903	22,204	80,236
<b>Total Revenues</b>	<b>263,838</b>	<b>71,466</b>	<b>563,807</b>	<b>517,208</b>	<b>23,402</b>	<b>296,638</b>	<b>324,956</b>	<b>65,982</b>	<b>4,132,055</b>
<b>EXPENSES</b>									
Payroll and related expenses	58,514	21,713	37,028	143,083	-	68,459	76,539	1,485	963,308
Advertising	14	5	446	4,318	-	15	17	-	5,152
Contract services	28,344	10,002	19,511	84,188	12,277	67,195	61,940	4,488	534,381
Insurance	8,122	3,822	7,576	21,322	-	8,363	9,385	8,435	114,560
Interest	31,938	13,686	8,507	22,310	-	20,781	16,982	18,661	164,686
Legal and professional	3,233	123	167	840	-	392	517	6	9,224
Miscellaneous	216	59	1,438	474	-	240	274	16	4,309
Printing and postage	218	80	121	518	-	253	312	6	3,720
Repairs and maintenance	16,094	5,030	7,345	32,202	-	27,650	27,697	634	253,210
Social program funds	3,220	1,243	463	6,478	-	3,507	4,382	42	50,030
Special events	-	-	-	-	-	-	-	-	-
Supplies	1,150	418	384	2,578	2,292	1,310	1,509	23	19,601
Taxes and licenses	4,468	2,087	96,039	69,292	-	8,312	5,142	92	205,517
Telephone	947	331	2,505	2,638	-	1,056	1,197	24	19,078
Travel	1,890	1,011	578	8,182	-	3,140	3,173	578	33,370
Utilities	39,874	11,790	38,106	81,354	-	42,723	36,129	22,548	683,537
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	<b>198,242</b>	<b>71,400</b>	<b>220,214</b>	<b>479,777</b>	<b>14,569</b>	<b>253,396</b>	<b>245,195</b>	<b>57,038</b>	<b>3,063,683</b>
<b>REVENUE OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>65,596</b>	<b>66</b>	<b>343,593</b>	<b>37,431</b>	<b>8,833</b>	<b>43,242</b>	<b>79,761</b>	<b>8,944</b>	<b>1,068,372</b>
Depreciation and amortization	61,235	16,481	146,280	156,310	-	60,668	68,050	66,519	942,841
<b>REVENUE OVER EXPENSES</b>	<b>\$ 4,361</b>	<b>\$ (16,415)</b>	<b>\$ 197,313</b>	<b>\$ (118,879)</b>	<b>\$ 8,833</b>	<b>\$ (17,426)</b>	<b>\$ 11,711</b>	<b>\$ (57,575)</b>	<b>\$ 125,531</b>

## SUPPORTING

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**BELLENFANT + MILES, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Urban Housing Solutions, Inc.  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Urban Housing Solutions, Inc. which comprise the statement of financial position as of December 31, 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, and have issued our report thereon dated September 17, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Urban Housing Solutions, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Urban Housing Solutions, Inc. internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Urban Housing Solutions, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bellonfant & Miles, PLLC*

September 17, 2013



# BELLENFANT + MILES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors  
Urban Housing Solutions, Inc.  
Nashville, Tennessee

### **Report on Compliance for Each Major Federal Program**

We have audited Urban Housing Solutions, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Urban Housing Solutions, Inc.'s major federal programs for the year ended December 31, 2012. Urban Housing Solutions, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Urban Housing Solutions, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Urban Housing Solutions, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Urban Housing Solutions, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Urban Housing Solutions, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of Urban Housing Solutions, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Urban Housing Solutions, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Urban Housing Solutions, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Bellenfant & Miles, PLLC*

September 17, 2013

URBAN HOUSING SOLUTIONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2012

PART I - SUMMARY OF AUDITORS' RESULTS

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

\_\_\_\_\_yes        x  no

Significant deficiencies identified not  
considered to be material weaknesses?

\_\_\_\_\_yes        x  none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_yes        x  no

**Federal Awards**

Internal Control over major programs:

Material weaknesses identified?

\_\_\_\_\_yes        x  no

Significant deficiencies identified not  
Considered to be material weaknesses?

\_\_\_\_\_yes        x  none reported

Type of auditors' report issued on compliance  
For major programs:

Unqualified

Any Audit findings disclosed that are required to be  
reported in accordance with A-133, Section 510(a)?

\_\_\_\_\_yes        x  no

Identification of major programs:

14.235 Supportive Housing Program

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_yes        x  no

**URBAN HOUSING SOLUTIONS, INC.**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

There were no audit findings for the year ended December 31, 2011.