

BE A HELPING HAND FOUNDATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2016 AND 2015

BE A HELPING HAND FOUNDATION

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March 8, 2017

Independent Auditor's Report

To the Board of Directors of
Be A Helping Hand Foundation
Nashville, Tennessee

We have audited the accompanying financial statements of Be A Helping Hand Foundation (the Foundation), a non-profit organization, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Foundation's 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 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 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 Foundation'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 Foundation'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 Be A Helping Hand Foundation as of December 31, 2016 and 2015, 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.

A handwritten signature in black ink, reading "Puryear, Hamilton, Hausman & Wood, PLLC". The signature is written in a cursive, flowing style.

Franklin, Tennessee

BE A HELPING HAND FOUNDATION

Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 5,744	\$ -
Cash and cash equivalents - Restricted	23,055	17,789
Accounts receivable	15,399	10,142
Grants receivable - State	-	59,417
Total current assets	<u>44,198</u>	<u>87,348</u>
 Property and equipment, net	 3,128,866	 3,192,781
Property held for sale	-	288,031
Other asset	<u>400</u>	<u>400</u>
 Total assets	 <u>\$ 3,173,464</u>	 <u>\$ 3,568,560</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Lines of credit	\$ 74,758	\$ 160,858
Current portion of notes payable - Related parties	12,121	16,371
Current portion of notes payable	165,491	348,414
Accounts payable	41,248	29,872
Accrued payroll	3,615	3,538
Accrued property taxes payable	29,414	38,054
Prepaid rent	-	12,620
Other deposits payable	4,000	4,000
Security deposits	<u>24,036</u>	<u>22,935</u>
Total current liabilities	<u>354,683</u>	<u>636,662</u>
 Long-term portion of notes payable - Related parties	 9,178	 43,050
Lines of credit	34,500	-
Long-term portion of notes payable	<u>820,604</u>	<u>666,909</u>
Total long-term liabilities	<u>864,282</u>	<u>709,959</u>
 Total liabilities	 1,218,965	 1,346,621
 Net assets - Unrestricted	 <u>1,954,499</u>	 <u>2,221,939</u>
 Total liabilities and net assets	 <u>\$ 3,173,464</u>	 <u>\$ 3,568,560</u>

See independent auditor's report and accompanying notes to financial statements.

BE A HELPING HAND FOUNDATION

Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted support and revenues:		
Rental income and fees	\$ 306,357	\$ 248,819
Grant income - Federal awards	-	271,727
Grant income - State awards	-	401,211
Grant income - Local awards	-	262,942
Contributions	550	100,750
Gain (loss) on property sales	(82,336)	62,746
Other income	<u>1,624</u>	<u>6,372</u>
Total unrestricted support and revenues	<u>226,195</u>	<u>1,354,567</u>
Expenses:		
Program services	323,288	327,269
General and administrative	<u>170,347</u>	<u>81,223</u>
Total expenses	<u>493,635</u>	<u>408,492</u>
Increase (decrease) in unrestricted net assets	(267,440)	946,075
Net unrestricted net assets at beginning of year	<u>2,221,939</u>	<u>1,275,864</u>
Net unrestricted net assets at end of year	<u><u>\$ 1,954,499</u></u>	<u><u>\$ 2,221,939</u></u>

See independent auditor's report and accompanying notes to financial statements.

BE A HELPING HAND FOUNDATION

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating activities:		
Increase (decrease) in net assets	\$ (267,440)	\$ 946,075
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	106,671	89,392
Gain (loss) on property sales	82,336	(62,746)
Non-cash contribution of land	-	(100,000)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(5,257)	2,621
(Increase) decrease in grants receivable - State	59,417	(59,417)
Increase (decrease) in accounts payable	11,376	20,646
Increase (decrease) in accrued payroll	77	702
Increase (decrease) in accrued property taxes payable	(8,640)	3,647
Increase (decrease) in prepaid rent	(12,620)	12,620
Increase (decrease) in security deposits	<u>1,101</u>	<u>4,870</u>
Net cash provided by (used for) operating activities	<u>(32,979)</u>	<u>858,410</u>
Investing activities:		
Purchase of property and equipment	(42,756)	(909,642)
Purchase of property held for sale	(266,360)	(188,031)
Property sales	<u>79,469</u>	<u>107,227</u>
Net cash used for investing activities	<u>(229,647)</u>	<u>(990,446)</u>
Financing activities:		
Proceeds from lines of credit	55,000	47,500
Payments made on lines of credit	(106,600)	(4,350)
Payments made on notes payable - Related parties	(38,122)	(24,891)
Proceeds from notes payable	431,966	201,433
Payments made on notes payable	(57,347)	(71,228)
Deferred loan costs incurred	(13,789)	-
Reduction of deferred loan costs	<u>2,528</u>	<u>-</u>
Net cash provided by financing activities	<u>273,636</u>	<u>148,464</u>
Increase in cash and cash equivalents	11,010	16,428
Cash and cash equivalents at beginning of year	<u>17,789</u>	<u>1,361</u>
Cash and cash equivalents at end of year	<u>\$ 28,799</u>	<u>\$ 17,789</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 32,954</u>	<u>\$ 50,295</u>

Non-cash transactions:

During 2016, the Foundation sold property held for sale and paid off notes payable totaling \$392,586.

During 2015, the Metropolitan Development & Housing Agency contributed \$100,000 in land, which was being held for sale by the Foundation.

See independent auditor's report and accompanying notes to financial statements.

BE A HELPING HAND FOUNDATION

Statements of Functional Expenses

For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Low</u>	<u>General</u>	
	<u>Income</u>	<u>and</u>	
	<u>Housing</u>	<u>Administrative</u>	<u>Total</u>
Payroll	\$ 29,699	\$ 58,207	\$ 87,906
Payroll taxes	2,570	4,751	7,321
Interest	27,225	8,257	35,482
Rent	7,912	11,868	19,780
Contract services	14,315	12,906	27,221
Professional services	3,039	28,015	31,054
Depreciation	106,239	432	106,671
Utilities and telephone	7,814	8,654	16,468
Travel and meals	-	5,819	5,819
Insurance	15,659	1,091	16,750
Repairs and maintenance	55,291	-	55,291
Office expenses	-	12,056	12,056
Property taxes	30,728	-	30,728
Management fees	22,797	-	22,797
Security	-	1,001	1,001
Advertising	-	170	170
Contributions	-	702	702
Bad debt expense	-	2,058	2,058
Miscellaneous	-	14,360	14,360
Total functional expenses	<u>\$ 323,288</u>	<u>\$ 170,347</u>	<u>\$ 493,635</u>

See independent auditor's report and accompanying notes to financial statements.

BE A HELPING HAND FOUNDATION

Statements of Functional Expenses (Continued)

For the Year Ended December 31, 2015

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Low Income Housing</u>	<u>General and Administrative</u>	<u>Total</u>
Payroll	\$ 57,249	\$ 24,682	\$ 81,931
Payroll taxes	5,083	2,592	7,675
Interest	48,799	1,496	50,295
Rent	16,082	4,020	20,102
Contract services	6,425	1,400	7,825
Professional services	3,187	7,050	10,237
Depreciation	86,069	3,323	89,392
Utilities and telephone	1,570	6,776	8,346
Travel and meals	-	9,946	9,946
Insurance	15,478	2,620	18,098
Repairs and maintenance	39,296	-	39,296
Office expenses	-	11,873	11,873
Property taxes	26,123	-	26,123
Management fees	21,641	-	21,641
Security	267	966	1,233
Taxes and licenses	-	419	419
Contributions	-	350	350
Miscellaneous	-	3,710	3,710
Total functional expenses	<u>\$ 327,269</u>	<u>\$ 81,223</u>	<u>\$ 408,492</u>

See independent auditor's report and accompanying notes to financial statements.

BE A HELPING HAND FOUNDATION

Notes to Financial Statements

December 31, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) General

Be A Helping Hand Foundation (the Foundation), a non-profit organization, was established in April 2001. The Foundation's mission is to provide affordable housing, free education, job training, and job placement assistance in the construction industry. Properties have been purchased and rehabilitated in low-income neighborhoods to be made available for renters and home buyers in need of safe, clean, family homes.

(b) Basis of Accounting

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

(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 Foundation 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 Foundation's Board of Directors.

Temporarily Restricted – Net assets whose use by the Foundation are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation 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 Activities and Changes in Net Assets as net assets released from restrictions. No temporarily restricted net assets were held during 2016 and 2015 and, accordingly, these financial statements do not reflect any activity related to this class of net assets for 2016 and 2015.

(Continued)

Permanently Restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation 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 2016 and 2015 and, accordingly, these financial statements do not reflect any activity related to this class of net assets for 2016 and 2015.

(d) Use of Estimates

Preparation of the Foundation'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 Foundation 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 Foundation that is, in substance, unconditional. There are no promises to give at December 31, 2016 and 2015.

(g) Accounts Receivable

The Foundation uses the allowance method to determine uncollectible receivables. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of the receivables. There is no allowance for receivables at December 31, 2016 and 2015. It is reasonably possible that management's estimate of the allowance for doubtful receivables could change. Receivables are charged against the allowance when management believes the collectability of the receivable is unlikely. For the year ended December 31, 2016, bad debt expense totaled \$2,058. There was no bad debt expense for the year ended December 31, 2015. Receivables are considered delinquent after thirty days; however, late fees are not assessed. Interest is not assessed on delinquent accounts. It is not the policy of the Foundation to place accounts on non-accrual status. At December 31, 2016 and 2015, the Foundation had \$12,547 and \$10,142, respectively, in accounts receivable greater than ninety days old.

(h) 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

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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.

(i) 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 1 to 27.5 years. The Foundation capitalizes all items related to the rental properties, including interest costs, until the property is placed in service. The Foundation capitalizes other items that are greater than or equal to \$1,000 and expenses items under \$1,000.

The Foundation 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, 2016 and 2015.

(j) Property Held for Sale

Property held for sale at December 31, 2015 included two properties that were in the process of being developed and two undeveloped parcels of land. All four properties were developed and sold in 2016. Real estate held for sale is recorded at the lower of its carrying value or fair value less cost to sell.

(k) Deferred Loan Costs

Deferred loan costs are related to obtaining the notes payable. In accordance with FASB ASC 350, *Intangibles – Goodwill and Other*, the Foundation amortizes these costs on a straight-line basis over the life of the related debt. When the debt is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations. As described in Note 2, unamortized loan costs are offset against the related debt on the Statements of Financial Position, with the amortization being reported as interest expense.

(l) Income Taxes

The Foundation 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.

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Contributions to the Foundation qualify for the charitable contributions deduction to the extent provided by Section 170 of the Code. The Foundation 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 general and administrative expense in the Foundation's financial statements.

(m) Program Services

Program services include low-income housing. There was no job training program service expenses in 2016 and 2015.

(n) Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue is subject to review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Foundation's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Foundation. There was no grant revenue in 2016.

(o) Functional Allocation of Expenses

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

(p) Contributed Services

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

(q) Fair Value Measurements

The Foundation follows FASB ASC 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. FASB ASC 820-10 defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles. The current practice includes: (1) the definition of fair value, which focuses on an exit price rather than on entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions, and credit standing; and (3) the expanded disclosures about fair value measurements. FASB ASC 820-10 does not require any new fair value measurements. The standard describes a fair value hierarchy

(Continued)

based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Foundation's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available. These inputs may be supported by little or no market activity.

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.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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

(r) Subsequent Events

The Foundation has evaluated subsequent events through March 8, 2017, the date the financial statements were available to be issued.

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(2) New Accounting Standard

In 2016, the Foundation adopted new FASB guidance regarding the presentation on the Statements of Financial Position of the cost of issuance of debt and related amortization expense in the Statements of Activities. The new guidance requires presenting such unamortized costs as a direct deduction from the face of the debt (see Note 8). Amortization is required to be included as interest expense in the Statements of Activities. There were no significant unamortized debt issuance costs prior to January 1, 2016.

(3) Restricted Cash

Tenant security deposits totaled \$24,036 and \$22,935 at December 31, 2016 and 2015, respectively. The Foundation is required to maintain a restricted cash account for these deposits; however, this cash account was underfunded by \$981 and \$5,146, respectively, at December 31, 2016 and 2015. These were subsequently funded in February 2017 and 2016, respectively.

(4) Property and Equipment

A summary of property and equipment as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land held for lease	\$ 570,167	\$ 540,167
Property held for lease	2,927,449	2,920,899
Tools and equipment	10,243	4,037
Leasehold improvements	<u>4,403</u>	<u>4,403</u>
	3,512,262	3,469,506
Less accumulated depreciation	<u>(383,396)</u>	<u>(276,725)</u>
	<u>\$ 3,128,866</u>	<u>\$ 3,192,781</u>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$106,671 and \$89,392, respectively. No interest costs were capitalized during 2016 and 2015, as amounts were not significant.

At December 31, 2016 and 2015, the Foundation executed operating leases on thirty and twenty-five of its properties, respectively. None of the leases are for more than one year. Rental income and fees from property held for lease totaled \$306,357 and \$248,819 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, accumulated depreciation for property held for lease was \$376,582 and \$270,342, respectively.

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(5) Income Taxes

The Foundation 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 Foundation’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 (2013 – 2015), or expected to be taken in the Foundation’s 2016 tax return. The Foundation identifies its major tax jurisdictions as the U.S. Federal and the State of Tennessee. In early 2016, the Foundation’s Form 990 for 2013 was audited by the Internal Revenue Service. The audit had two findings, which had no impact on the financial statements. The Foundation 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, 2016 and 2015, the Foundation did not recognize any material interest and penalties relating to taxes, nor were any accrued at December 31, 2016 and 2015.

(6) Lines of Credit

The Foundation has established an \$80,500 revolving line of credit at Pinnacle National Bank, which is due September 2019. Interest, at the Bank’s Prime Rate plus 1%, which is 4.50 % and 4.25%, respectively, at December 31, 2016 and 2015, is due monthly. At December 31, 2016 and 2015, the line of credit had an outstanding balance of \$34,500 and \$80,000, respectively, and is secured by a house and real property, which had a carrying value of \$108,641 and \$112,570, respectively, at December 31, 2016 and 2015 and is personally guaranteed by the Executive Director and his spouse.

The Foundation has established a \$90,000 revolving line of credit at SunTrust Bank, which is due on demand. Interest, which is 5.75% and 5.50%, respectively, at December 31, 2016 and 2015, is due monthly. At December 31, 2016 and 2015, the line of credit had an outstanding balance of \$69,508 and \$73,108, respectively, and is secured by a blanket lien on the Foundation’s assets.

The Foundation has a credit card with Fifth Third Bank which has an unsecured credit line feature that carries an interest rate of 29.9%. The balance on this credit line was \$5,250 and \$7,750, respectively, at December 31, 2016 and 2015.

(7) Notes Payable - Related Parties

The Foundation has entered into an unsecured promissory note, at 0% interest, with the Executive Director. At December 31, 2016 and 2015, the note balance is \$7,527 and \$40,009, respectively. The note requires 72 monthly payments of \$540 beginning August 2012. The note is due September 2018.

The Foundation has entered into an unsecured promissory note, at 0% interest, with the estate of a former Board Member. At December 31, 2016 and 2015, the note balance is

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\$13,772 and \$19,412, respectively. The note requires 72 monthly payments of \$470 beginning September 2012. The note is due October 2018.

(8) Notes Payable

Notes payable secured by low income properties at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Secured promissory note payable to Pinnacle National Bank in 53 monthly installments of \$167 beginning June 2013, secured by a house and real property with a carrying value of approximately \$97,500 and \$101,000, respectively, at December 31, 2016 and 2015, including a variable interest rate that is at Prime less 4% (0% at December 31, 2016 and 2015), maturing in November 2017, with final balloon payment.	\$ 22,833	\$ 24,833
Secured promissory note payable to Pinnacle National Bank in 53 monthly installments of \$167 beginning June 2013, secured by a house and real property with a carrying value of approximately \$107,000 and \$110,800, respectively, at December 31, 2016 and 2015, including a variable interest rate that is at Prime less 4% (0% at December 31, 2016 and 2015), maturing in November 2017, with final balloon payment.	22,833	24,833
Secured promissory note payable to Pinnacle National Bank in 57 monthly installments of \$855 beginning October 2016, secured by a house and real property with a carrying value of approximately \$97,600 and \$100,200, respectively, at December 31, 2016 and 2015, including a variable interest rate that is currently at 5.50% at December 31, 2016 and at Prime less 4% (0% at December 31, 2015), maturing in October 2021, with final balloon payment. This note payable was increased due to a refinance in September 2016.	77,013	19,531
Secured promissory note payable to Pinnacle National Bank in 120 monthly installments of \$406 beginning January 2017, secured by house and real property with a carrying value of approximately \$70,600, including interest at Prime less 4% (0% at December 31, 2016 and 2015), maturing in December 2026. Three other notes payable were refinanced into this note payable in December 2016.	48,770	11,417

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	<u>2016</u>	<u>2015</u>
Secured promissory note payable to Pinnacle National Bank in 53 monthly installments of \$111 beginning June 2012, secured by a house and real property with a carrying value of approximately \$117,400 at December 31, 2015, including a variable interest rate at Prime less 4% (0% at December 31, 2015). This note payable was refinanced with three other notes payable into one note payable in December 2016.	-	15,222
Secured promissory note payable to Pinnacle National Bank in 53 monthly payments of \$81 beginning June 2012, secured by a house and real property with a carrying value of approximately \$68,300 at December 31, 2015, including a variable interest rate at Prime less 4% (0% at December 31, 2015). This note payable was refinanced with three other notes payable into one note payable in December 2016.	-	11,117
Secured promissory note payable to Pinnacle National Bank in 53 monthly installments of \$100 beginning September 2012, secured by a house and real property with a carrying value of approximately \$74,300 at December 31, 2015, including a variable interest rate at Prime less 4% (0% at December 31, 2015). This note payable was refinanced with three other notes payable into one note payable in December 2016.	-	13,819
Secured promissory note payable to Simmons Bank in 59 monthly installments of \$287 beginning September 2015, secured by real property with a carrying value of approximately \$52,700 at December 31, 2016 and 2015, including interest at 5.57%, maturing in August 2020, with final balloon payment and personally guaranteed by the Executive Director.	23,772	25,610
Secured promissory note payable to Simmons Bank in 59 monthly installments of \$623 beginning November 2016, secured by a house and real property with a carrying value of approximately \$72,800 and \$69,300, respectively, at December 31, 2016 and 2015, including interest at 4.45%, maturing October 2021, with final balloon payment and personally guaranteed by the Executive Director. This note payable was increased due to a refinance in October 2016.	79,033	48,034

(Continued)

	<u>2016</u>	<u>2015</u>
Secured promissory note payable to Truxton Trust in 59 monthly installments of \$3,977 beginning January 2016, secured by 13 houses and real properties with a carrying value of approximately \$1,485,000, including interest at Prime less 4% (0% at December 31, 2016), maturing in November 2020, with final balloon payment. Thirteen notes payable were refinanced into this note payable in January 2016.	668,102	-
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$860 beginning April 2014, secured by a house and real property with a carrying value of approximately \$88,800 at December 31, 2015, including interest at 5.25% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	98,442
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$460 beginning March 2014, secured by a house and real property with a carrying value of approximately \$52,400 at December 31, 2015, including interest at 5.50% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	51,376
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$376 beginning January 2012, secured by a house and real property with a carrying value of approximately \$100,800 at December 31, 2015, including interest at 5.75% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	36,535
Secured promissory note payable to Pinnacle National Bank in 53 monthly installments of \$64 beginning June 2012, secured by a house and real property with a carrying value of approximately \$112,800 at December 31, 2015, including a variable interest rate at Prime less 4% (0% at December 31, 2015). This was refinanced with Truxton Trust in January 2016.	-	8,945
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$576 beginning March 2013, secured by a house and real property with a carrying value of approximately \$112,800 at December 31, 2015, including interest at 5.25% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	61,421

(Continued)

	<u>2016</u>	<u>2015</u>
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$323 beginning October 2013, secured by a house and real property with a carrying value of approximately \$116,000 at December 31, 2015, including interest at 5.25% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	35,506
Secured promissory note payable to Pinnacle National Bank in 59 monthly installments of \$485 beginning December 2013, secured by a house and real property with a carrying value of approximately \$149,000 at December 31, 2015, including interest at 5.25% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	54,163
Secured promissory note payable to Pinnacle National Bank in 60 monthly payments of \$285 beginning August 2014, secured by a house and real property with a carrying value of approximately \$296,500 at December 31, 2015, including interest at 5.25% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	11,145
Secured promissory note payable to Simmons Bank in 59 monthly installments of \$354 beginning January 2011, secured by a house and real property with a carrying value of approximately \$108,800 at December 31, 2015, including interest at 6.24% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	32,284
Secured promissory note payable to Simmons Bank in 59 monthly installments of \$348 beginning March 2014, secured by a house and real property with a carrying value of approximately \$124,000 at December 31, 2015, including interest at 5.24% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	39,314
Secured promissory note payable to The Housing Fund in 48 monthly installments of \$420 beginning July 2013, secured by a house and real property with a carrying value of approximately \$150,500 at December 31, 2015, including interest at 3.5% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	88,976

(Continued)

	<u>2016</u>	<u>2015</u>
Secured promissory note payable to The Housing Fund in 48 monthly installments of \$420 beginning July 2013, secured by a house and real property with a carrying value of approximately \$151,000 at December 31, 2015, including interest at 3.5% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	88,966
Secured promissory note payable to The Housing Fund in 48 monthly installments of \$300 beginning February 2014, secured by a house and real property with a carrying value of approximately \$87,600 at December 31, 2015, including interest at 3.5% at December 31, 2015. This was refinanced with Truxton Trust in January 2016.	-	38,651
Secured promissory note payable to The Housing Fund, interest only payments beginning February 2015, secured by property held for sale with a carrying value of approximately \$121,600 at December 31, 2015, with interest at 3.25% at December 31, 2015. This property was sold during 2016, and the note payable was paid in full.	-	87,617
Secured promissory note payable to The Housing Fund, interest only payments beginning February 2015, secured by property held for sale with a carrying value of approximately \$116,300 at December 31, 2015, with interest at 3.25% at December 31, 2015. This property was sold during 2016, and the note payable was paid in full.	-	87,566
Secured promissory note payable to Truxton Trust, interest only payments beginning February 2016 with interest at Prime plus 1% (4.75% at December 31, 2016), secured by real property with a carrying value of \$30,000 at December 31, 2016, maturing in October 2017.	30,000	-
Secured promissory note payable to Truxton Trust, interest only payments beginning April 2016 with interest at Prime plus 1% (4.75% at December 31, 2016), secured by real property with a carrying value of approximately \$25,100 at December 31, 2016, maturing March 2017.	<u>25,000</u>	<u>-</u>

(Continued)

	<u>2016</u>	<u>2015</u>
Total notes payable	997,356	1,015,323
Less, current portion	(165,491)	(348,414)
Less, unamortized issuance costs, net	<u>(11,261)</u>	<u>-</u>
Long-term portion	<u>\$ 820,604</u>	<u>\$ 666,909</u>

Maturities of notes payable as of December 31, 2016 are summarized as follows:

2017	\$ 165,491
2018	65,454
2019	66,147
2020	558,324
2021	117,554
Thereafter	<u>24,386</u>
	<u>\$ 997,356</u>

(9) Related Party Transactions

The Foundation has a promissory note with the Executive Director (see note 7). The Executive Director or his spouse has personally guaranteed three of the Foundation's other notes payable. The Foundation leases office space from the Executive Director under a two-year lease ending in April 2018. Total rent expense under this lease in 2016 and 2015 was \$17,400. Total rent expense overall for the Foundation was \$19,780 and \$20,102 in 2016 and 2015, respectively. Under this lease, the Foundation will pay \$17,400 in 2017 and \$5,800 in 2018.

The Foundation subleases some of its office space to Life Choice Management, a company owned by the Executive Director's spouse. The sublease is \$500 a month for the period October 1, 2015 through September 30, 2017. Total sublease income was \$6,000 and \$1,500 in 2016 and 2015, respectively, which is included in rental income. As of December 31, 2016, \$500 in sublease income is recorded as accounts receivable in the Statements of Financial Position. Under this sublease, the Foundation will receive \$4,500 in 2017. The Foundation also paid management fees totaling \$22,797 and \$21,641, respectively, in 2016 and 2015 to Life Choice Management. As of December 31, 2016, \$1,922 in management fees is recorded as accounts payable in the Statements of Financial Position.

In 2016, the Foundation paid two Board members \$3,000 each for file management services and for construction management consulting services, respectively.

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In 2016, the Foundation advanced approximately \$8,000 to an employee. As of December 31, 2016, \$3,663 is owed to the Foundation for unpaid advances. In addition, the employee owes the Foundation \$4,553 for personal use of Foundation credit cards. The total owed by this employee for unpaid advances and credit card charges, \$8,216, is recorded in accounts receivable on the Statements of Financial Position.

The Foundation sold one of its properties to the Executive Director and his spouse in 2015. Gain recognized on the sale was \$19,606.

The Foundation has a promissory note with the estate of a former Board Member (see note 7).

(10) Grants

The Foundation has entered into numerous grant agreements to purchase and rehabilitate homes for affordable rental housing. Under the terms of the grant agreements, the Foundation has agreed to repay certain funds if any of the properties are sold during the “affordability period” (five to twenty years from date of project completion). However, the Foundation classified these 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. Property sales in 2016 and 2015 did not involve any grant funds.

(11) Risk on Uninsured Cash

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash. The Foundation maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. The standard FDIC insurance amount is limited to \$250,000 per depositor, per insured bank. Therefore, amounts in excess of this \$250,000 held by the Foundation during the years December 31, 2016 and 2015 were uninsured and uncollateralized.