

Family Scholar House, Inc.
Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

Family Scholar House, Inc.

Table of Contents
June 30, 2011 and 2010

	<u>Page</u>
Independent Auditor's Report on Consolidated Financial Statements.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Functional Expenses	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6 - 15



Independent Auditor's Report on Consolidated Financial Statements

To the Board of Trustees
Family Scholar House, Inc.
Louisville, Kentucky

We have audited the accompanying consolidated statement of financial position of Family Scholar House, Inc. ("the Organization") as of June 30, 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Organization as of June 30, 2010 were audited by other auditors whose report dated September 10, 2010, expressed an unqualified opinion. As discussed in Note Q, the Organization has restated its June 30, 2010 financial statements during the current year to reflect a corrected balance of temporarily restricted net assets, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2010 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Scholar House, Inc. as of June 30, 2011, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note Q that were applied to restate the June 30, 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Louisville, Kentucky
September 8, 2011

Family Scholar House, Inc.
Consolidated Statements of Financial Position
June 30, 2011 and 2010

	<u>2011</u>	<u>As Restated 2010</u>
Assets		
Cash and cash equivalents	\$ 651,389	\$ 461,720
Prepaid expenses	14,562	4,705
Pledges and grants receivable, net	132,343	102,927
Federal Home Loan Bank receivable	500,000	500,000
Investment in Louisville Scholar House, LLC	(119)	(69)
Investment in Stoddard Johnston Scholar House, LLLP	100	-
Property and equipment, net	3,497,185	3,572,463
Receivables from affiliated organizations:		
Note receivable, Louisville Scholar House, LLC	2,954,401	2,954,401
Development fee receivable, Louisville Scholar House, LLC	1,390,884	1,475,000
Notes receivable, Downtown Scholar House, LLLP	1,787,947	500,000
Accrued interest	508,888	321,281
Total Assets	<u>\$ 11,437,580</u>	<u>\$ 9,892,428</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 26,814	\$ 16,782
Notes payable	3,927,415	2,942,878
Total Liabilities	3,954,229	2,959,660
Commitments and Contingencies		
Net Assets		
Unrestricted net assets		
Invested in property, equipment and limited partnerships	5,703,002	5,558,986
Undesignated	1,046,201	779,340
Total Unrestricted Net Assets	6,749,203	6,338,326
Temporarily restricted net assets	734,148	594,442
Total Net Assets	<u>7,483,351</u>	<u>6,932,768</u>
Total Liabilities and Net Assets	<u>\$ 11,437,580</u>	<u>\$ 9,892,428</u>

See accompanying notes.

Family Scholar House, Inc.
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011			As Restated 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenues						
Contributions	\$ 266,193	\$ -	\$ 266,193	\$ 197,478	\$ -	\$ 197,478
Grants	58,800	747,389	806,189	687,966	1,426,928	2,114,894
In-kind donations	46,805		46,805	32,164	-	32,164
Special events, net	80,520	-	80,520	58,546	-	58,546
Interest income	205,714	-	205,714	164,566		164,566
Net Assets Released from Restrictions:						
Satisfaction of program restrictions	200,813	(200,813)	-	269,356	(269,356)	-
Satisfaction of property acquisition restrictions	406,870	(406,870)	-	681,871	(681,871)	-
Total Support and Revenues	1,265,715	139,706	1,405,421	2,091,947	475,701	2,567,648
Expenses						
Program services	703,525	-	703,525	605,180	-	605,180
General and administrative	103,774	-	103,774	98,300	-	98,300
Fundraising	47,539	-	47,539	57,260	-	57,260
Total Expenses	854,838	-	854,838	760,740	-	760,740
Changes in Net Assets	410,877	139,706	550,583	1,331,207	475,701	1,806,908
Net Assets at Beginning of Year	6,338,326	594,442	6,932,768	5,007,119	118,741	5,125,860
Net Assets at End of Year	\$ 6,749,203	\$ 734,148	\$ 7,483,351	\$ 6,338,326	\$ 594,442	\$ 6,932,768

See accompanying notes.

Family Scholar House, Inc.
Consolidated Statements of Functional Expenses
Years Ended June 30, 2011 and 2010

	2011				2010			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Salaries	\$ 331,537	\$ 46,739	\$ -	\$ 378,276	\$ 286,735	\$ 30,375	\$ -	\$ 317,110
Payroll taxes	22,721	6,268	-	28,989	20,177	6,758	-	26,935
Employee benefits	32,416	8,334	-	40,750	22,093	3,569	-	25,662
Assistance payments	51,967	-	-	51,967	105,370	-	-	105,370
Program publications	35,926	-	-	35,926	34,151	-	-	34,151
Rent	-	-	-	-	3,347	1,116	-	4,463
Utilities	8,677	915	-	9,592	3,309	1,266	-	4,575
Telephone and internet	15,462	5,857	-	21,319	7,059	2,687	-	9,746
Legal and accounting	-	16,889	-	16,889	-	14,297	-	14,297
Office supplies	12,060	94	-	12,154	11,375	9,100	-	20,475
Employee training	6,476	5,000	-	11,476	3,415	-	-	3,415
Repairs and maintenance	-	559	-	559	182	555	-	737
Insurance	7,844	3,183	-	11,027	5,406	8,001	-	13,407
Interest expense	78,853	-	-	78,853	35,566	11,537	-	47,103
Automobile expense	6,437	389	-	6,826	6,072	1,721	-	7,793
Printing and postage	3,624	348	-	3,972	2,581	860	-	3,441
Professional fees	-	-	24,000	24,000	-	-	38,394	38,394
Newsletter	-	-	10,430	10,430	-	-	13,480	13,480
Public relations	-	-	13,109	13,109	-	-	5,386	5,386
Dues and memberships	1,940	-	-	1,940	3,568	-	-	3,568
Depreciation and amortization	76,581	600	-	77,181	35,132	300	-	35,432
Miscellaneous	11,004	8,599	-	19,603	19,642	6,158	-	25,800
Total Expenses	\$ 703,525	\$ 103,774	\$ 47,539	\$ 854,838	\$ 605,180	\$ 98,300	\$ 57,260	\$ 760,740

See accompanying notes.

Family Scholar House, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 550,583	\$ 1,806,908
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	77,181	35,432
Loss on disposal of property and equipment	1,093	4,727
Louisville Scholar House, LLC loss allocation	50	69
Changes in:		
Prepaid expenses	(9,857)	(1,103)
Pledges and grants receivable, net	(29,416)	106,133
Federal Home Loan Bank receivable	-	(500,000)
Accrued interest	(187,607)	(163,204)
Accounts payable and accrued expenses	<u>10,032</u>	<u>(16,708)</u>
Net Cash Provided by Operating Activities	412,059	1,272,254
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,996)	(1,439,517)
Net change in receivables from affiliated organizations	(1,203,831)	(500,000)
Capital contribution in limited partnerships	(100)	-
Distributions from Louisville Scholar House, LLC	<u>-</u>	<u>67,496</u>
Net Cash Used in Investing Activities	(1,206,927)	(1,872,021)
Cash Flows from Financing Activities		
Proceeds from notes payable	1,287,947	1,482,677
Payments on notes payable	<u>(303,410)</u>	<u>(820,045)</u>
Net Cash Provided by Financing Activities	<u>984,537</u>	<u>662,632</u>
Increase in Cash and Cash Equivalents	189,669	62,865
Cash and Cash Equivalents Beginning of Year	<u>461,720</u>	<u>398,855</u>
Cash and Cash Equivalents End of Year	<u>\$ 651,389</u>	<u>\$ 461,720</u>
Supplemental Disclosures:		
Cash paid for interest	\$ 77,413	\$ 47,103
Schedule of Non-Cash Investing and Financing Transactions:		
Acquisition of assets by owner financing	\$ -	\$ 1,642,788

See accompanying notes.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Note A - Nature of Activities

Family Scholar House, Inc. ("FSH") is a not-for-profit, community based collaborative effort, serving Kentucky and Southern Indiana, which assists single parents in obtaining a four-year college degree. The Organization provides supportive housing, counseling, and support services, thereby empowering participants to break the cycle of poverty for themselves and their children. The Organization is supported primarily through donor contributions, grants, and fund-raising activities.

The consolidated financial statements include the accounts of the Family Scholar House and its wholly-owned subsidiaries: Project Women Development, LLC ("PWD"), DSH GP, Inc. and SJSH GP, LLC (collectively referred to as the "Organization").

PWD is a single member limited liability company, which was formed in February 2008, and whose purpose is to consult and manage the construction of the Louisville Scholar House property. PWD serves as the managing member of Louisville Scholar House, LLC.

DSH GP, Inc. is a wholly-owned for-profit corporation, which was formed in March 2010 for the purpose of being the general partner in Downtown Scholar House, LLLP.

SJSH GP, LLC is a single member limited liability company, which was formed in December 2010 for the purpose of being the general partner in Stoddard-Johnston Scholar House, LLLP.

Note B - Significant Accounting Policies

1. Basis of Accounting: The consolidated financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, titled *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("GAAP"). In substance, SFAS No. 168 makes the FASB Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Organization adopted the ASC upon issuance, with no material impact to the financial statements.

2. Use of Estimates: 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.
3. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report which represents the date the consolidated financial statements were available to be issued.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note B - Significant Accounting Policies (Continued)

4. Principles of Consolidation: The consolidated financial statements include the accounts of the Family Scholar House, Inc. and its wholly-owned subsidiaries: Project Women Development, LLC, DSH GP, Inc. and SJSH GP, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.
5. Cash and Cash Equivalents: The Organization considers all highly-liquid investments with maturities when purchased of three months or less, that are not designated for a specific purpose to be cash equivalents. The Organization typically maintains balances with its bank in excess of federally-insured limits.
6. Property and Equipment: Property and equipment purchased by the Organization are stated at cost. Property and equipment donated to the Organization are stated at estimated fair value at the date of donation. The Organization's policy is to capitalize all long-lived assets with a cost greater than \$500. Depreciation of property and equipment is provided on the straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. Depreciation expense for the years ended June 30, 2011 and 2010 was \$77,181 and \$35,432, respectively.
7. Income Tax Status: FSH qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and operates as other than a private foundation.

PWD and SJSH GP, LLC are single member limited liability companies. FSH is the sole member thus PWD and SJSH GP, LLC are disregarded entities for tax purposes and included with FSH.

DSH GP, Inc. is a corporation subject to income taxes.

The FASB has issued new standards, contained in the ASC, clarifying the accounting for uncertainty in taxes recognized in annual financial statements for fiscal years beginning after December 31, 2008. These standards require recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Organization adopted these standards at the beginning of fiscal 2010 with no material impact on its financial statements.

8. Donor-Imposed Restrictions: The Organization records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

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

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

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note B - Summary of Significant Accounting Policies (Continued)

8. Donor-Imposed Restrictions (Continued): Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2011 and 2010.
9. Contributed Services, Supplies, and Property: Certain contributed services, supplies, and property are recorded as support and expenses or a related asset at fair value when determinable, otherwise at values indicated by the donor. The Organization received contributed services, supplies, and property of approximately \$47,000 and \$32,000, respectively, during the years ended June 30, 2011 and 2010.
10. Functional Allocation of Expenses: The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
11. Reclassifications: Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation.

Note C - Pledges and Grants Receivable

Pledges and grants receivable at June 30, 2011 and 2010 consist of the following unconditional promises to give:

	<u>2011</u>	<u>2010</u>
Gross pledges and grants receivable	\$ 132,343	\$ 105,265
Less allowance for uncollectible pledges and grants	<u>-</u>	<u>(2,338)</u>
	<u>\$ 132,343</u>	<u>\$ 102,927</u>

The valuation of pledges and grants receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. At June 30, 2010, an allowance for uncollectible pledges and grants of \$2,338 was recorded in the accompanying consolidated statements of financial position. At June 30, 2011, the Organization considers all pledges and grants receivable to be fully collectible; accordingly, no allowance for uncollectible pledges and grants was recorded.

Gross pledges and grants receivable at June 30, 2011 are due according to the following schedule:

Less than one year	\$ 129,607
One to five years	2,536
More than five years	<u>200</u>
	<u>\$ 132,343</u>

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note D - Federal Home Loan Bank Receivable

The Federal Home Loan Bank ("FHLB") receivable represents amounts due related to construction costs for Downtown Scholar House. The Organization will receive payment once it provides documentation of construction costs to FHLB. The Organization expects to receive payment by December 2012.

Note E - Investment in Louisville Scholar House, LLC

PWD owns a 0.01% partnership interest in Louisville Scholar House, LLC (the "Company"). The Company was formed to fund construction of 56 independent living apartments and a child development center in Louisville, Kentucky. Construction was completed in August 2008. The operations of this facility are managed by the Company.

PWD is the general partner in this limited liability company. PNC Bank, NA, (formerly National City Bank of Kentucky Community Development Corporation) is the limited partner owning a 99.99% partnership interest, in exchange for a loan commitment of approximately \$7,035,000 to the Company, and is to receive certain tax credits generated by the Company.

For consolidated financial statement presentation, the investment in Louisville Scholar House, LLC is accounted for using the equity method of accounting.

Note F - Investment in Downtown Scholar House, LLLP

DSH GP, Inc. owns a 0.1% partnership interest in Downtown Scholar House, LLLP ("the DSH Partnership"). The DSH Partnership was formed to fund the rehabilitation and construction of 54 independent living apartments in Louisville, Kentucky. The construction of the apartments was completed in January 2011. The operations of this facility are managed by the DSH Partnership.

DSH GP, Inc. is the general partner in this limited liability limited partnership. OEF 5/3 Fund I, LLC is the limited partner owning a 99.9% partnership interest, in exchange for an equity commitment of approximately \$3,003,000 to the DSH Partnership, and is to receive certain tax credits generated by the DSH Partnership. Additional financing to complete construction of this project is being provided by grants and loans from governmental agencies.

For consolidated financial statement presentation, the investment in Downtown Scholar House, LLLP is accounted for using the equity method of accounting. No investment has been made as of June 30, 2011.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note G - Investment in Stoddard Johnston Scholar House, LLLP

SJSH GP, LLC owns a 0.01% partnership interest in Stoddard Johnston Scholar House, LLP ("the SJSH Partnership"). The SJSH Partnership was formed to fund the rehabilitation and construction of 57 independent living apartments in Louisville, Kentucky through certain tax credits generated by the SJSH Partnership along with various grants and loans from government agencies. The construction and subsequent operations of this facility will be managed by the SJSC Partnership.

SJSH GP, LLC is the general partner in this limited liability partnership. PNC Bank, NA, is the limited partner owning a 99.9% partnership interest, in exchange of an equity commitment of approximately \$9,309,000 to the SJSH Partnership, and is to receive certain tax credits generated by the SJSH Partnership.

For consolidated financial statement presentation, the investment in Stoddard Johnston Scholar House, LLP is accounted for using the equity method of accounting.

Note H - Property and Equipment

Property and equipment consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 335,588	\$ 335,588
Academic Services Center building	1,348,760	1,348,760
Downtown Scholar House building	1,478,509	-
Equipment	171,166	169,263
Vehicles	<u>16,500</u>	<u>16,500</u>
	3,350,523	1,870,111
Less: accumulated depreciation	<u>126,449</u>	<u>49,268</u>
	3,224,074	1,820,843
Buildings, not placed in service	<u>273,111</u>	<u>1,751,620</u>
	<u>\$ 3,497,185</u>	<u>\$ 3,572,463</u>

As of June 30, 2010, the Organization had two buildings which were not placed into service. These buildings were purchased in conjunction with the development of Downtown Scholar House campus and renovations began on these buildings subsequent to June 30, 2010. As of June 30, 2011, the Organization had one building which had not been placed into service.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note I - Notes Payable

Notes payable consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Forgivable loan from a government agency, due in full September 2011, bearing 0% interest. Collateralized by land and buildings located at 920 South First Street. Note will be forgiven upon the receipt of certificate of occupancy and the restriction of some units for public housing.	\$ 1,642,788	\$ 1,642,788
Forgivable loan from a government agency, collateralized by a mortgage and regulatory agreement, bearing 0% interest. The note will be forgiven in full at its maturity in December 2040 as long as the Organization maintains compliance with the affordability requirements in the funding commitment agreement.	999,000	-
Bank construction loan, bearing interest at 5.69%. Payable in monthly interest-only installments through May 2011. The loan converted to monthly principal and interest payments of \$6,551 through April 2016 when the balance of the note is due. Collateralized by the Academic Services Center building.	996,680	1,000,000
Note payable to a government agency, collateralized by a mortgage and regulatory agreement, bearing interest at 1%. Principal and interest are payable on or before the maturity date in December 2030. Interest may be paid yearly.	288,947	-
Note payable to a bank, collateralized by real property at 118 W. Breckinridge Street, due in monthly interest-only payments at 6.50%. Paid in full February 2011.	-	183,750
Note payable to a bank, collateralized by real property at 118 W. Breckinridge Street, due in monthly interest-only payments of 6.50%. Paid in full February 2011.	-	116,250
Note payable due in July 2010, payable in monthly installments of \$85, including interest at 0% and collateralized by office equipment.	-	90
	<u>\$ 3,927,415</u>	<u>\$ 2,942,878</u>

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note I - Notes Payable (Continued)

Future maturities of notes payable are as follows:

Year Ending June 30,

2012	\$ 1,664,470
2013	22,962
2014	24,323
2015	25,764
2016	901,949
Thereafter	<u>1,287,947</u>
	<u>\$ 3,927,415</u>

Note J - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Capital expenditures	\$ 635,000	\$ 520,176
Healthy Me program	25,000	-
Real estate program	23,250	-
Academic services	15,695	30,000
Eugenia Powers education trust	14,284	13,431
Art therapy	14,048	-
Passport for family success	6,871	14,325
Various other programs	<u>-</u>	<u>16,510</u>
	<u>\$ 734,148</u>	<u>\$ 594,442</u>

Note K - Conditional Grants

During 2006, the Organization was awarded a \$125,000 challenge grant from C.E. and S. Foundation. The challenge grant provides for matching funds of up to \$25,000 per year for the fiscal years 2006 through 2010 when the Organization meets certain requirements in raising new or increased contributions over those received in the base year (fiscal year 2005). The organization earned the \$25,000 match for the years ended June 30, 2007 through 2010. The 2010 match is included in grant revenues on the consolidated financial statements for the year ended June 30, 2010.

In 2008, the Organization was awarded a \$500,000 challenge grant from the James Graham Brown Foundation. The challenge grant provides for \$500,000 to be awarded upon \$500,000 of contributions being raised from new donors by December 1, 2009. The grant funds have a restricted use of the building of the Louisville Scholar House campus. In August 2009, the requirements of this challenge grant had been met. The grant funds were received and are included in the consolidated financial statements for the year ended June 30, 2010.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note K - Conditional Grants (Continued)

In 2009, the Organization was awarded a \$550,000 challenge grant from The Kresge Foundation. The challenge grant provided for \$550,000 to be awarded upon raising the \$1,017,258 in contributions required to fund the construction of the Louisville Scholar House campus by December 31, 2009. The grant funds are restricted to the building of the Louisville scholar House campus. The requirements of this challenge grant were met. The grant funds were received and are included in the consolidated financial statements for the year ended June 30, 2010.

In 2010, the Organization was awarded a \$350,000 challenge grant from the James Graham Brown Foundation. The challenge grant provides for \$350,000 to be awarded upon the raising of \$1,050,000 by December 1, 2011. The grant funds are restricted for the renovation and construction of the Downtown Scholar House campus. The funds were received in May 2011 and are included in the consolidated financial statements for the year ended June 30, 2011.

Note L - Related Party Transactions

Development Fee: PWD has earned a development fee from Louisville Scholar House, LLC for services provided by PWD for consulting and managing the construction of the property. For its services, PWD received a note receivable from the Company for \$1,925,000. The note bears interest at 4.4% and is due December 31, 2018. The balance of the note receivable is \$1,390,884 and \$1,475,000 at June 30, 2011 and 2010, respectively.

Note Receivable from Louisville Scholar House, LLC: In July 2008, the Organization transferred the property and related improvements to Louisville Scholar House, LLC in exchange for a secured note in the amount of \$2,954,401 that bears interest at 4.4% and requires annual payments be made from surplus cash as defined in the Company's Operating Agreement. For the years 2011 and 2010 there was no surplus cash, therefore no payments were made on the note. This note is subordinated to the development fee. All principal and accrued interest on this note receivable is due December 31, 2028.

Notes Receivable from Downtown Scholar House, LLLP: During the year ended June 30, 2010, the Organization executed a secured mortgage note with Downtown Scholar House, LLLP in the amount of \$500,000 that bears interest at 1%. All principal and accrued interest on this note receivable is due February 29, 2040.

During the year ended June 30, 2011, the Organization executed a secured mortgage note with Downtown Scholar House, LLLP in the amount of \$1,288,947 that bears interest at 1%. All principal and accrued interest on this note receivable is due December 31, 2040. The Organization advanced \$1,287,947 under this note during the year ended June 30, 2011.

Ground Lease with Downtown Scholar House, LLLP: During the year ended June 30, 2010, the Organization entered into a ground lease with Downtown Scholar House, LLLP for renovation of a twenty-one unit apartment building on the grounds of the Organization. The term is for ninety-nine years with rent of \$1 per annum.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note M - Guarantor Agreements

The Organization is the general partner in various limited partnerships for the purpose of purchasing, constructing, rehabilitating and operating low-income housing in the Louisville Metro area. As general partner, the Organization is obligated to guarantee amounts borrowed by the partnerships and lend amounts to the partnerships to avoid any cash flow deficits from partnership operations.

As of June 30, 2011, the Organization is the general partner in the following limited partnerships:

	<u>Ownership Interest</u>
Louisville Scholarship House, LLC	0.01%
Downtown Scholar House, LLLP	0.10%
Stoddard Johnston Scholar House, LLLP	0.01%

The Organization had guaranteed the bank borrowings of Louisville Scholar House, LLC. During the year ended June 30, 2010, this limited liability company repaid all outstanding bank borrowings.

The Organization has guaranteed the borrowings of up to \$3,429,000 for Downtown Scholar House, LLLP. Of this amount, approximately \$1,900,000 is outstanding as of June 30, 2011.

The Organization has agreed to guarantee the bank borrowings of up to approximately \$1,800,000 for Stoddard Johnston Scholar House, LLLP. However, as of June 30, 2011, this project was in the design phase and has not incurred any debts.

As of June 30, 2011 and 2010, no amounts have been accrued for these guarantees.

Note N - Fundraising Events

The Organization held various fundraising events to raise awareness among the attendees and the local community as to the Organization's cause, and to solicit donations. Gross revenues and direct event expenses related to fundraising events during the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Revenues	\$ 122,935	\$ 88,221
Expenses	<u>(42,415)</u>	<u>(29,675)</u>
	<u>\$ 80,520</u>	<u>\$ 58,546</u>

Note O - Retirement Plan

The Organization has a SIMPLE IRA plan to fund retirement for its employees. The Organization matches employees' contributions up to three percent of their compensation. The Organization made contributions of \$9,221 and \$3,459 for the years ended June 30, 2011 and 2010, respectively.

Family Scholar House, Inc.
Notes to Consolidated Financial Statements (Continued)
June 30, 2011 and 2010

Note P - Concentrations

During the years ended June 30, 2011 and 2010,, the Organization received 19% and 89% of its contribution revenue from one donor and two donors, respectively. During the years ended June 30, 2011 and 2010, the Organization received 55% and 54% of its grant revenue from two and three grantor agencies, respectively.

Note Q - Prior Period Adjustment

During the year ended June 30, 2011, the Organization discovered prior years' donor restricted contributions used for their restricted purpose had not been released from restrictions. Adjustments to properly reflect the release of donor restrictions of the prior years' contributions increased the July 1, 2009 unrestricted net assets and decreased the July 1, 2009 temporarily restricted net assets by \$173,535.