

Calvary Women's Services, Inc.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2012 AND 2011

WATKINS | MEEGAN

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Independent Auditors' Report

To the Board of Directors
Calvary Women's Services, Inc.
Washington, DC

We have audited the accompanying statements of financial position of Calvary Women's Services, Inc. (the Organization) as of September 30, 2012 and 2011 and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Calvary Women's Services, Inc. as of September 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
March 1, 2013

CALVARY WOMEN'S SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and Cash Equivalents		
Unrestricted	\$ 437,307	\$ 566,259
Restricted Client Deposits	3,441	1,827
Restricted Collateral Account	-	70,063
Total Cash and Cash Equivalents	<u>440,748</u>	<u>638,149</u>
Other Receivable	45,770	-
Grants Receivable	92,190	69,456
Pledges Receivable, Current Portion	67,633	171,993
Prepaid Expenses	6,486	8,045
Total Current Assets	<u>652,827</u>	<u>887,643</u>
PLEDGES RECEIVABLE, Net of Current Portion	6,295	26,768
PROPERTY AND EQUIPMENT, Net	3,152,151	1,286,313
DEPOSIT	<u>18,409</u>	<u>1,740</u>
	<u>\$ 3,829,682</u>	<u>\$ 2,202,464</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Long-Term Debt, Current Portion	\$ 22,186	\$ 7,451
Accounts Payable	151,383	63,051
Accrued Vacation	17,472	19,825
Client Deposits	3,320	1,655
Total Current Liabilities	<u>194,361</u>	<u>91,982</u>
LONG-TERM DEBT, Net of Current Portion	1,463,520	992,549
NET ASSETS		
Unrestricted	2,103,078	828,964
Temporarily Restricted	<u>68,723</u>	<u>288,969</u>
Total Net Assets	<u>2,171,801</u>	<u>1,117,933</u>
	<u>\$ 3,829,682</u>	<u>\$ 2,202,464</u>

CALVARY WOMEN'S SERVICES, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended September 30,					
	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions	\$ 679,215	\$ 543,116	\$ 1,222,331	\$ 674,975	\$ 425,077	\$ 1,100,052
In-Kind Contributions	531,809	-	531,809	521,512	-	521,512
Grants	678,021	-	678,021	375,930	6,161	382,091
Interest and Dividends	314	-	314	336	-	336
Other	669	-	669	1,185	-	1,185
Net Assets Released from Restriction - Satisfaction of Program Restrictions	763,362	(763,362)	-	375,116	(375,116)	-
Total Revenue and Support	2,653,390	(220,246)	2,433,144	1,949,054	56,122	2,005,176
EXPENSES						
Program Services						
Calvary Women's Shelter	734,641	-	734,641	807,312	-	807,312
Sister Circle	22,910	-	22,910	22,574	-	22,574
Pathways	358,321	-	358,321	347,926	-	347,926
Total Program Services	1,115,872	-	1,115,872	1,177,812	-	1,177,812
Supporting Services						
Management and General	26,195	-	26,195	26,221	-	26,221
Fundraising	237,209	-	237,209	247,012	-	247,012
Total Supporting Services	263,404	-	263,404	273,233	-	273,233
Total Expenses	1,379,276	-	1,379,276	1,451,045	-	1,451,045
CHANGE IN NET ASSETS	1,274,114	(220,246)	1,053,868	498,009	56,122	554,131
NET ASSETS, Beginning of Year	828,964	288,969	1,117,933	330,955	232,847	563,802
NET ASSETS, End of Year	\$ 2,103,078	\$ 68,723	\$ 2,171,801	\$ 828,964	\$ 288,969	\$ 1,117,933

CALVARY WOMEN'S SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2012

	Calvary Women's Shelter	Sister Circle	Pathways	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 291,226	\$ 15,852	\$ 167,570	\$ 474,648	\$ 20,698	\$ 118,709	\$ 139,407	\$ 614,055
Payroll Taxes and Benefits	45,976	2,503	26,454	74,933	3,268	18,740	22,008	96,941
Volunteer Search	783	-	-	783	270	712	982	1,765
Conference and Training	209	-	-	209	1,001	344	1,345	1,554
In-Kind Rent and Services	52,240	-	98,995	151,235	-	-	-	151,235
Professional Fees	31,745	-	-	31,745	32,922	300	33,222	64,967
Supplies	34,728	251	8,905	43,884	1,067	397	1,464	45,348
Telephone	2,463	-	1,719	4,182	2,620	-	2,620	6,802
Postage and Delivery	75	-	-	75	618	9,084	9,702	9,777
Printing	141	-	-	141	887	11,625	12,512	12,653
Events	52	-	-	52	815	46,794	47,609	47,661
Rent	101,339	688	7,274	109,301	898	5,153	6,051	115,352
Building Maintenance	6,568	373	8,674	15,615	500	300	800	16,415
Utilities	21,922	-	10,156	32,078	-	-	-	32,078
Insurance	2,037	365	395	2,797	14,151	-	14,151	16,948
Equipment Maintenance	-	1,248	-	1,248	3,446	6,584	10,030	11,278
Client Necessities	2,196	525	118	2,839	-	-	-	2,839
Job Training and Life Skills	559	-	-	559	-	133	133	692
Depreciation and Amortization	1,442	-	130	1,572	1,387	2,705	4,092	5,664
Miscellaneous	2,661	-	-	2,661	6,902	4,189	11,091	13,752
Donated Materials	100,850	-	10,650	111,500	-	-	-	111,500
Allocation of Overhead Expenses	35,429	1,105	17,281	53,815	(65,255)	11,440	(53,815)	-
Total Expenses	<u>\$ 734,641</u>	<u>\$ 22,910</u>	<u>\$ 358,321</u>	<u>\$ 1,115,872</u>	<u>\$ 26,195</u>	<u>\$ 237,209</u>	<u>\$ 263,404</u>	<u>\$ 1,379,276</u>

CALVARY WOMEN'S SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

	Calvary Women's Shelter	Sister Circle	Pathways	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 288,850	\$ 15,113	\$ 154,530	\$ 458,493	\$ 20,151	\$ 129,518	\$ 149,669	\$ 608,162
Payroll Taxes and Benefits	42,176	2,207	22,563	66,946	2,943	18,911	21,854	88,800
Volunteer Search	518	-	42	560	-	-	-	560
Conference and Training	1,182	-	73	1,255	1,052	563	1,615	2,870
In-Kind Rent and Services	72,833	-	98,209	171,042	65,745	999	66,744	237,786
Professional Fees	69,955	-	-	69,955	36,663	4,787	41,450	111,405
Supplies	16,852	40	4,079	20,971	842	1,099	1,941	22,912
Telephone	2,362	-	1,487	3,849	2,561	-	2,561	6,410
Postage and Delivery	47	-	-	47	412	7,195	7,607	7,654
Printing	116	-	21	137	327	9,881	10,208	10,345
Events	-	-	25	25	788	37,744	38,532	38,557
Rent	100,258	1,118	6,692	108,068	872	5,609	6,481	114,549
Building Maintenance	6,726	-	6,571	13,297	1,113	-	1,113	14,410
Utilities	19,833	-	11,225	31,058	-	-	-	31,058
Insurance	3,182	355	680	4,217	7,407	-	7,407	11,624
Equipment Maintenance	2,679	463	488	3,630	2,254	2,750	5,004	8,634
Client Necessities	5,026	1,142	188	6,356	-	-	-	6,356
Job Training and Life Skills	1,178	-	254	1,432	-	-	-	1,432
Depreciation and Amortization	5,523	191	-	5,714	1,968	3,844	5,812	11,526
Miscellaneous	262	-	68	330	3,899	2,828	6,727	7,057
Donated Materials	98,188	-	10,750	108,938	-	-	-	108,938
Allocation of Overhead Expenses	69,566	1,945	29,981	101,492	(122,776)	21,284	(101,492)	-
Total Expenses	<u>\$ 807,312</u>	<u>\$ 22,574</u>	<u>\$ 347,926</u>	<u>\$ 1,177,812</u>	<u>\$ 26,221</u>	<u>\$ 247,012</u>	<u>\$ 273,233</u>	<u>\$ 1,451,045</u>

CALVARY WOMEN'S SERVICES, INC.

STATEMENTS OF CASH FLOWS

	<u>Year Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,053,868	\$ 554,131
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	5,664	11,526
Donated Property and Equipment	(92,132)	-
Capitalized In-Kind Services	(176,943)	(174,788)
Capital Campaign Contributions	(456,407)	(417,293)
Decrease in Discount on Pledges Receivable	(740)	(1,953)
Change in:		
Restricted Client Deposits	(1,614)	(1,128)
Restricted Collateral Account	70,063	(70,063)
Other Receivable	(45,770)	-
Grants Receivable	(22,734)	(27,661)
Pledges Receivable	125,573	(19,695)
Prepaid Expenses	1,559	4,898
Deposits	(16,669)	-
Accounts Payable	88,332	47,925
Accrued Vacation	(2,353)	4,937
Client Deposits	1,665	730
Net Cash Provided by (Used in) Operating Activities	<u>531,362</u>	<u>(88,434)</u>
CASH USED IN INVESTING ACTIVITIES		
Purchases of Property and Equipment	(1,165,521)	(103,782)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of Capital Campaign Contributions Received	456,407	417,293
Proceeds from Issuance of Long Term Debt	50,000	-
Principal Payments on Loan	(1,200)	-
Net Cash Provided by Financing Activities	<u>505,207</u>	<u>417,293</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128,952)	225,077
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>566,259</u>	<u>341,182</u>
CASH AND CASH EQUIVALENTS, End of Year	<u><u>\$ 437,307</u></u>	<u><u>\$ 566,259</u></u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Property and Equipment Acquired Through Mortgage Financing	<u>\$ (436,906)</u>	<u>\$ (1,000,000)</u>
Capitalized In-Kind Services	<u><u>\$ 176,943</u></u>	<u><u>\$ 174,788</u></u>

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 1 – ORGANIZATION

Calvary Women's Services, Inc. (the Organization) was incorporated in September 1983, as a District of Columbia not-for-profit corporation, to provide short-term and long-term housing to homeless women in the District of Columbia. The Organization provides supportive services, including a dinner program, supported employment program, life skills development programs, psychiatric services and case management.

The Organization works toward achieving its mission through the following program areas:

Calvary Women's Shelter – This program is a 25-bed transitional housing program for women. All women are welcome. The women at the Shelter build supportive relationships with staff and one another through participating in classes, meetings and recreational activities together. The support services, such as life skills classes, mental health services, addiction recovery services and individual case management, are provided to ensure that women are able to make positive steps toward independence.

Sister Circle – This program is a permanent housing program that offers long-term support and independent housing to women in recovery from substance addiction, many of whom struggle with chronic medical conditions, including HIV/AIDS. This program also provides a close-knit community of peer support as the women continue to develop their life skills.

Pathways – This program is a 10-bed transitional housing program that offers stability and support to women working toward independent living. This program is developed to serve chronically homeless women who struggle with mental illness and offer them the care they need in a safe, comfortable space.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization are presented on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Income Tax Status

The Organization is exempt from income tax on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been designated by the Internal Revenue Service as a "publicly supported" organization under Section 509(a) of the Internal Revenue Code.

The Organization believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization recognizes interest expense and penalties related to unrecognized tax benefits in management and general expense on the financial statements. The Organization reported no penalties and interest related to unrecognized tax benefits for the years ended September 30, 2012 and 2011. Tax years prior to 2008 for the Organization are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia.

The Organization is subject to income taxes on any unrelated business income received. There has been no unrelated business income or income tax expense for the years ended September 30, 2012 and 2011.

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents includes cash held for restricted client deposits and a restricted collateral account. For purposes of the statements of cash flows, the Organization considers cash in operating bank accounts, cash on hand, and highly liquid investments with maturities of 90 days or less to be cash and cash equivalents.

Restricted Client Deposits

The Organization maintains a separate cash account for cash held on behalf of the clients. These funds are exclusively for the clients and are not available to pay the Organization's expenses. These amounts are reflected as both assets and liabilities of the Organization on the financial statements. Deposits and withdrawals are made at the discretion of each participating client.

Restricted Collateral Account

The Organization maintains a cash collateral account as required by the bank loan to secure the payments on the loan when they are due and will be held until the debt is paid back in full. The restricted collateral account was closed during the year ended September 30, 2012 when the loan was refinanced.

Receivables

Pledges receivable represent unconditional promises from donors to contribute monies to the Organization. Unconditional promises are recorded when the promise is made. Unconditional promises to give where payments are due in the next year are reflected as current pledges receivable and are recorded at their net realizable amount. Unconditional promises to give where payments are due in the subsequent years are reflected as long-term pledges receivable and are reflected at the present value of their net realizable amounts using a risk adjusted discount rate. The amortization of the discount on pledges receivable is recorded as contribution revenue. Conditional promises are not recorded until the conditions specified in the promise have been met. At September 30, 2011, the Organization had a conditional promise to give of \$50,000 that was conditional upon receiving matching funds. The Organization did not have any conditional promises to give at September 30, 2012.

The Organization records receivables net of allowances for doubtful accounts when necessary. Accounts are individually analyzed for collectibility. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. All receivables are deemed collectible by management at September 30, 2012 and 2011. There was no bad debt expense for the years ended September 30, 2012 and 2011.

Property and Equipment

Property and equipment are recorded at cost, or, if donated, at fair value on the date of donation. The Organization capitalizes purchases over \$1,000 with an estimated useful life of greater than one year. Depreciation expense is computed using the straight-line method of depreciation over an estimated useful life of three to seven years. Construction in progress represents building costs related to the purchase and renovation of the new building located in the District of Columbia and is not being depreciated yet, as it has not been placed in service as of September 30, 2012.

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Leasehold improvements are reflected in the financial statements at cost. The Organization amortizes leasehold improvements over the term of the lease.

Net Assets

The Organization 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. The Organization did not hold permanently restricted net assets at September 30, 2012. A summary of the net asset categories included in the accompanying financial statements is as follows:

Unrestricted Net Assets: Unrestricted amounts represent net resources that are not subject to donor imposed restrictions and are available for various activities, including: Operational and administrative functions, support of other activities at the discretion of the Board of Directors.

Temporarily Restricted Net Assets: Temporarily restricted amounts represent net resources that are subject to donor-imposed restrictions, either for a specific purpose or subject to the passage of time.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All pledges receivable and amounts received that are donor-restricted for future periods or donor-restricted for specific purposes are reported as temporarily. The restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction when the donor-stipulated time restriction ends or the purpose restriction is accomplished by the Organization. All gifts granted to the Organization are recorded at fair value at the time of receipt.

Grants are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant, are incurred. Revenue received in excess of the related expenses is recorded as deferred grant revenue. Grant expenses incurred before the related grant revenue is received are reported as grants receivable.

Contributed Services

Contributed services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed.

Functional Allocation of Expenses

The Organization's expenses have been summarized on a functional basis in the statements of activities and change in net assets. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management based on time spent on the functional category.

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through March 1, 2013, the date the financial statements were available to be issued.

NOTE 3 – PLEDGES RECEIVABLE

In accordance with the FASC Topic *Revenue Recognition of Not-for-Profits*, the Organization has adopted the policy of recognizing uncollected pledges as receivables. Pledges receivable are as follows at:

	September 30,	
	2012	2011
Receivable in Less Than One Year	\$ 67,633	\$ 171,993
Receivable in One to Five Years	6,500	27,713
Total Pledges Receivable	74,133	199,706
Less: Unamortized Discount, 3.25 Percent	(205)	(945)
Net Pledges Receivable	73,928	198,761
Less: Current Portion	67,633	171,993
Pledges Receivable, Long-Term	<u>\$ 6,295</u>	<u>\$ 26,768</u>

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30,	
	2012	2011
Land	\$ 284,220	\$ 284,220
Building	665,780	665,780
Construction in Progress	2,100,287	327,959
Furniture and Equipment	192,079	92,905
Leasehold Improvements	309,615	309,615
	<u>3,551,981</u>	<u>1,680,479</u>
Less: Accumulated Depreciation and Amortization	<u>(399,830)</u>	<u>(394,166)</u>
	<u>\$ 3,152,151</u>	<u>\$ 1,286,313</u>

Construction in progress includes interest incurred and capitalized of \$55,443 and \$38,094 for the years ended September 30, 2012 and 2011, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	September 30,	
	2012	2011
Time Restricted	\$ 20,000	\$ -
Expansion Project	48,723	283,731
Communications	-	2,158
Calvary Women's Shelter	-	1,301
Food	-	1,779
	<u>\$ 68,723</u>	<u>\$ 288,969</u>

NOTE 6 – GRANTS

The Organization receives grants from the Community Partnership for the Prevention of Homelessness which are funded by the D.C. Government and U.S. Department of Housing and Urban Development to provide transitional housing and comprehensive case management services for 35 homeless women a year. The total amount of revenue recognized by the Organization from these grants totaled \$678,021 and \$375,930 for the years ended September 30, 2012 and 2011, respectively. The outstanding receivables from these grants at September 30, 2012 and 2011 totaled \$92,190 and \$69,456, respectively.

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 7 – BENEFIT PLAN

The employees of the Organization are eligible to participate in a 403(b) tax-deferred annuity plan through which they can defer up to the legal limits allowed by the Internal Revenue Code. The Organization does not contribute to employee accounts.

NOTE 8 – IN-KIND CONTRIBUTIONS AND DONATED SERVICES

Volunteers perform many of the day-to-day operating activities of the Organization. The Organization does not record the estimated value of these services in its statements of activities and change in net assets. The estimated value of these services was \$29,211 and \$8,574 for the years ended September 30, 2012 and 2011, respectively. The Organization also received donated rent for its Sister Circle program. This donated rent is not recorded in the statements of activities and change in net assets, as the Organization would not have paid the rent and would instead have modified the program. Such donated rent totaled \$74,291 and \$56,000 for the years ended September 30, 2012 and 2011, respectively.

The Organization received in-kind contributions related to donated goods, professional contributed services for construction of the new building, volunteers for the Calvary Women's Shelter and Pathways programs, legal services that benefited management and general, and contributed rent for the Pathways program. These in-kind contributions totaled \$531,809 and \$521,512 for the years ended September 30, 2012 and 2011, respectively, and were recorded in the statements of activities and change in net assets.

NOTE 9 – LEASES

The Organization leases the shelter space and office space in the District of Columbia under noncancelable operating leases which expired in March 2012 and June 2012, respectively. After expiration, leases began on month-to-month basis until renovations on the new building are completed, at which point all operations will be moved to that location. In addition to base monthly rent, the leases require reimbursement of real property taxes. Rental expense, including reimbursement of real property taxes, totaled \$115,352 and \$114,549 for the years ended September 30, 2012 and 2011, respectively.

NOTE 10 – LONG-TERM DEBT

United Bank

On December 6, 2010, the Organization entered into a Purchase and Escrow Agreement to purchase land and a building in Washington, DC, for \$950,000 to house its programs. The Organization closed on the purchase on December 30, 2010. Net settlement costs of \$101,776 were incurred at closing, including \$70,000 of collateral reserve accounts required by the lender. The purchase was primarily funded through a promissory note of up to \$1,000,000, and a short-term loan from a related party that was paid back in January 2011. On April 6, 2012, the Organization refinanced the original loan with a construction loan of up to \$1,500,000, the proceeds of which were used to pay off the balance of the previous loan and to pay for additional renovations to the building. The Organization is in the process of renovating the property and constructing certain improvements to facilitate the functional and operational requirements of the Organization to carry out its mission in the property. As of September 30, 2012, the amount of the loan that had been drawn down was \$1,436,906.

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 10 – LONG-TERM DEBT (Continued)

The loan is secured by a first lien Deed of Trust on the property, an assignment of leases and rents on the property, and a security agreement on all personal property on the property. The bank loan is also subject to financial covenants of a debt service coverage ratio of at least 1.2 to 1, and a maximum debt to net worth ratio of 4 to 1, as defined in the Loan Agreement.

In the first year of the loan, the loan bears interest at a variable rate equal to the greater of the 30-day LIBOR plus 3 percent, or 5 percent. In the second through sixth year of the loan, the loan bears interest at a fixed annual rate equal to the greater of the midrange of the five-year swap equivalent of the 30-day LIBOR prevailing on the first anniversary of the loan plus 3 percent, or 5 percent. In the seventh year of the loan through the loan's maturity, the note bears interest at a fixed annual rate equal to the greater of the midrange of the five-year swap equivalent of the 30-day LIBOR prevailing on the sixth anniversary of the loan plus 3 percent, or 5 percent. Subsequent to April 7, 2013, for a period of six years, monthly payments of principal and interest will be due in an amount that will fully amortize the loan over a 15-year period at a fixed annual rate equal to the greater of the five-year swap equivalent of the 30-day LIBOR on April 30, 2012, plus 3 percent, or 5 percent.

The loan requires payments of interest only in the first year of loan. In the second through sixth year of the loan, the loan requires payments of principal and interest sufficient to amortize the loan over a 20-year period. In the seventh year of the loan through the loan's maturity, the loan requires payments of principal and interest, sufficient to amortize the loan over a 15-year period. The loan matures April 7, 2023 and contains certain prepayment penalties.

At September 30, 2012, 5 percent was the applicable interest rate. Future minimum principal payments required under the mortgage, assuming a rate of 5 percent, are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 17,321
2014	43,539
2015	45,799
2016	47,988
2017	50,665
Thereafter	<u>1,231,594</u>
	<u>\$ 1,436,906</u>

CALVARY WOMEN'S SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

NOTE 10 – LONG-TERM DEBT (Continued)

Cornerstone, Inc.

On May 7, 2012, the Organization entered into a loan and recoverable grant agreement (the Agreement) with Cornerstone, Inc., an unrelated not-for-profit organization. Under the Agreement, the Organization received a loan in the amount of \$50,000 and a grant for \$50,000, both of which were to provide funds solely for the use of improving the property purchased in December 2010. The loan bears interest at 2 percent, and requires monthly payments of principal and interest over the life of the loan, which is being amortized over 9.5 years and matures November 30, 2021. The loan is secured by a second deed of Trust on the property, and is also subject to financial covenants related which require the Organization to maintain a cash reserve not less than the greater of (1) \$2,000, and (2) 5 percent of the outstanding unpaid principal amount of the loan. Future minimum principal payments required under the loan are as follows:

Year Ending September 30,

2013	\$ 4,865
2014	4,961
2015	5,060
2016	5,161
2017	5,264
Thereafter	<u>23,489</u>
	<u>\$ 48,800</u>

The Agreement, which expires in 2032, contains additional operational provisions, a right of first refusal on a purchase of the property, and a default provision which states that in the event of default, Cornerstone will have the right to require repayment in full of the grant, including interest thereon.

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