

ZUMIX, INC.

Consolidated Financial Statements

March 31, 2010

(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ZUMIX, Inc.:

We have audited the accompanying consolidated statement of financial position of ZUMIX, Inc. (the Organization) as of March 31, 2010 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of ZUMIX, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 financial statements are free from 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 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 the Organization as of March 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for the purposes of additional analysis and are not a required part of the March 31, 2010 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the March 31, 2010 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the March 31, 2010 consolidated financial statements taken as a whole.

Nardella + Taylor

August 2, 2010

ZUMIX, INC.

Consolidated Statement of Financial Position

March 31, 2010

Assets:	
Current assets:	
Cash and cash equivalents	\$ 278,007
Accounts receivable, net of allowance for bad debts of \$2,200	40,222
Prepaid expenses and other current assets	2,207
Total current assets	<u>320,436</u>
Amounts held in escrow	527,044
Property and equipment, net	3,474,355
Notes receivable long-term - contractual principal	1,979,662
Discount for below-market rates	(1,294,148)
Notes receivable long-term, net of discount	<u>685,514</u>
Deferred debt issuance costs, net of accumulated amortization	232,978
Deferred financing costs, net of accumulated amortization	<u>1,294,148</u>
Total assets	<u>\$ 6,534,475</u>
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable and accrued expenses	\$ 127,378
Note payable, short-term	160,000
Total current liabilities	<u>287,378</u>
Deferred income	2,586,283
Long-term mortgage notes payable - contractual principal	3,857,892
Discount for below-market rates	(2,586,283)
Long-term mortgage notes payable, net of discount	<u>1,271,609</u>
Net assets:	
Unrestricted	\$ 2,190,700
Temporarily restricted	198,505
Total net assets	<u>2,389,205</u>
Total liabilities and net assets	<u>\$ 6,534,475</u>

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

ZUMIX, INC.

Consolidated Statement of Activities and Changes in Net Assets

Year Ended March 31, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Individual donations	\$ 29,910	\$ 64,308	\$ 94,218
Corporate and foundation donations	145,000	454,890	599,890
Government grants	49,233	200,000	249,233
Program fees	96,011	-	96,011
Interest income	38,820	-	38,820
Amortization of deferred income from below-market interest rate loans	67,229	-	67,229
Net assets released from restrictions	793,130	(793,130)	-
 Total support and revenue	 1,219,333	 (73,932)	 1,145,401
Expenses:			
Youth programs	377,222	-	377,222
Community arts program	47,507	-	47,507
Management and general	155,301	-	155,301
Fundraising	40,572	-	40,572
Capital project	150,847	-	150,847
 Total expenses	 771,449	 -	 771,449
 Increase (decrease) in net assets	 447,884	 (73,932)	 373,952
 Net assets at beginning of year	 1,742,816	 272,437	 2,015,253
 Net assets at end of year	 \$ 2,190,700	 \$ 198,505	 \$ 2,389,205

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

ZUMIX, INC.

Consolidated Statement of Cash Flows

Year Ended March 31, 2010

Increase (decrease) in cash:

Cash flows from operating activities:

Increase in net assets	\$ 373,952
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Non-cash contribution of fixed assets	(36,000)
Realized loss on disposal of fixed assets	2,213
Amortization of deferred financing and debt issuance costs	43,016
Discount amortization on notes receivable	(34,982)
Amortization of unearned income	(67,229)
Depreciation	9,280
Decrease in accounts receivable	5,842
Decrease in prepaid expenses	3,403
Increase in accounts payable and other current liabilities, net of change in construction-related payables	<u>14,115</u>

Net cash provided by operating activities 313,610

Cash flows from investing activities:

Purchases of fixed assets (2,241,936)

Net cash used in investing activities (2,241,936)

Cash flows from financing activities:

Decrease in amounts held in escrow 2,051,290

Net decrease in borrowings under short-term financing arrangements (50,000)

Net cash provided by financing activities 2,001,290

Net increase in cash 72,964

Cash and cash equivalents, beginning of period 205,043

Cash and cash equivalents, end of period \$ 278,007

Supplemental cash flow data:

Contributed goods and services:

Contributed audio equipment \$ 36,000

\$ 36,000

Cash paid for interest, net of interest capitalized \$ 6,917

\$ 6,917

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

ZUMIX, INC.

Consolidated Statement of Functional Expenses

Year Ended March 31, 2010

	Youth Programs	Community Arts	Total Program Services	Management and General	Fundraising	Total Operations	Capital Project	Total
Salaries	\$ 156,620	\$ 12,077	\$ 168,697	\$ 55,719	\$ -	\$ 224,416	\$ 41,479	\$ 265,895
Youth Stipends	8,590	825	9,415	-	-	9,415	-	9,415
Employee benefits	6,632	532	7,164	13,544	-	20,708	2,193	22,901
Payroll taxes	13,063	995	14,058	4,452	-	18,510	3,472	21,982
Total salaries and related expenses	184,905	14,429	199,334	73,715	-	273,049	47,144	320,193
Consulting	115,818	12,685	128,503	43,728	39,300	211,531	24,033	235,564
Bank fees/payroll fees	(86)	-	(86)	5,752	-	5,666	-	5,666
Advertising	512	9,805	10,317	220	-	10,537	420	10,957
Supplies	5,080	2,340	7,420	1,547	-	8,967	299	9,266
Telephone	7,601	64	7,665	1,096	-	8,761	891	9,652
Postage and shipping	1,514	68	1,582	358	-	1,940	82	2,022
Rent	19,130	-	19,130	4,020	800	23,950	-	23,950
Equipment rental and maintenance	5,471	278	5,749	264	-	6,013	18,787	24,800
Printing and publications	3,231	2,835	6,066	361	-	6,427	117	6,544
Facilities maintenance and repair	6,707	-	6,707	797	-	7,504	2,280	9,784
Travel	5,845	4,506	10,351	(121)	472	10,702	310	11,012
Conferences, conventions and meetings	8,995	497	9,492	3,002	-	12,494	810	13,304
Dues and subscriptions	1,063	-	1,063	581	-	1,644	-	1,644
Insurance	3,399	-	3,399	2,377	-	5,776	-	5,776
Utilities	7,856	-	7,856	2,160	-	10,016	5,591	15,607
Depreciation	-	-	-	9,280	-	9,280	-	9,280
Vehicle expense	12	-	12	1,467	-	1,479	-	1,479
Amortization of deferred financing and debt issuance costs	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	43,016	43,016
Other expenses	169	-	169	4,697	-	4,866	6,917	6,917
Total expenses	\$ 377,222	\$ 47,507	\$ 424,729	\$ 155,301	\$ 40,572	\$ 620,602	\$ 150,847	\$ 771,449

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

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(1) Nature of Operations

ZUMIX, Inc. was incorporated on April 1, 1991 as an outreach organization offering music and arts opportunities on a year-round basis to young people ages eight to eighteen in Boston, Massachusetts. The mission of ZUMIX, Inc. is to stimulate interest in, and further understanding of music and related arts; and to build self-esteem, pride and a sense of accomplishment in young people to support charitable and educational purposes in the field of visual arts.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies applied by ZUMIX, Inc. in the preparation of the accompanying financial statements. The accounting and reporting policies are in conformity with generally accepted accounting principles (GAAP). ZUMIX, Inc. prepares its financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification™ (ASC) Topic 958 Subtopic 605 which addresses accounting for contributions made and contributions received and ASC Topic 958 Subtopic 205 which addresses the preparation of financial statements of not-for-profit organizations. Under ASC Topic 958 Subtopic 205, ZUMIX, Inc. 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.

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ZUMIX, Inc. and its related entity ZUMIX Firehouse, Inc. (“ZFI”). ZUMIX, Inc. has the power to appoint a voting majority of board members of ZFI and has made an equity contribution of \$166,000 to ZFI (described in further detail below). ZUMIX, Inc. has deemed that these factors together constitute both an “economic interest” and “control,” requiring consolidation under GAAP. The accounts of ZUMIX Firehouse, Inc. are included as of December 31, 2009. All significant intercompany transactions and balances have been eliminated in consolidation.

ZUMIX Firehouse, Inc., a Massachusetts not-for-profit corporation, was formed for the purpose of purchasing and renovating the Engine Company 40 Firehouse, at 260 Sumner Street in East Boston, MA in order to turn the building into a vibrant youth arts center.

The ZUMIX Firehouse project has a total capital budget (including all New Markets Tax Credit transaction costs) of \$4,172,904 aggregated by the MHIC New Markets Fund II, LLC, (“MHIC New Markets Fund II”) an investment fund managed by the Massachusetts Housing Investment Corporation (“MHIC”). It is composed of the following sources:

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(2) Summary of Significant Accounting Policies (continued)

(a) Principles of Consolidation (continued)

Equity investments in New Markets Tax Credits by multiple investors	\$	1,273,242
Loan from East Boston Community Development Corporation		920,000
Two Sponsor Loans from ZUMIX, Inc. (see Note 7)		1,979,662
	\$	<u>4,172,904</u>

This pool was in turn invested in two Community Development Entities (CDEs) and used to cover MHIC New Markets Fund II, LLC's transaction costs as follows:

Investment in MHIC New Markets CDE II Series 5, LLC	\$	3,589,954
Investment Nuestra Commercial Markets Fund 2008, LLC		565,000
		<u>4,154,954</u>
Fund transaction costs		17,950
	\$	<u>4,172,904</u>

The \$4,154,954 invested in the CDEs was expended in the following manner:

Fees, third party costs and reserves:	
Fees and third party costs - MHIC New Markets CDE II Series 5, LLC	\$ 179,498
Fees and third party costs - Nuestra Commercial Markets Fund 2008, LLC	39,550
Reserves withheld by MHIC	78,014
Total fees, third party costs and reserves	<u>297,062</u>
Loans to ZUMIX Firehouse, Inc. (see Note 11):	
MHIC New Markets CDE II Series 5, LLC	3,332,442
Nuestra Commercial Commercial Markets Fund 2008, LLC	525,450
Total Loans to ZFI	<u>3,857,892</u>
	<u>\$ 4,154,954</u>

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(2) Summary of Significant Accounting Policies (continued)

(a) Principles of Consolidation (continued)

Additionally, ZUMIX, Inc. has made an equity investment in ZFI of \$166,000. This equity investment plus the \$3,857,892 loaned to ZFI comprise the \$4,023,892 budgeted for the purchase, construction and renovation of the Firehouse property.

On December 17, 2008, ZFI purchased the land and building at 260 Sumner Street East Boston, MA from the previous owner. Events occurring at that date are described as having occurred "at closing."

In connection with the Firehouse project, ZFI committed to paying \$800,000 in developer fees as follows:

Fee paid at closing to East Boston Community Development Corporation	\$ 320,000
Fee paid at closing to ZUMIX, Inc.	350,000
Fee to be paid at completion to ZUMIX, Inc.	<u>130,000</u>
	<u><u>\$ 800,000</u></u>

The \$320,000 paid at closing to East Boston Community Development Corporation ("East Boston CDC") represents a payment to this entity for managing the construction of the building.

The \$350,000 paid at closing to ZUMIX, Inc. represents a payment for management of the predevelopment process.

The \$130,000 to be paid at completion to ZUMIX, Inc. is to establish an operating reserve of \$50,000 and a debt service escrow of \$80,000.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(2) Summary of Significant Accounting Policies (continued)

(b) Property and Equipment

Property and equipment are recorded at cost if purchased and estimated fair market value at the time of donation if donated to the Organization. Contributed services that create or enhance long-lived assets are capitalized and recognized at the estimated fair market value at the time of donation. It is the Organization's policy to capitalize all purchases or contributions of assets with an expected useful life greater than one year that have an initial purchase price or donated value equal to or in excess of \$1,000. Expenditures for repairs and maintenance are charged to expense as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation is provided using the straight-line method over the estimated useful life of the assets, ranging from five to ten years for assets placed in service as of March 31, 2010. Land is not depreciated. The building has not yet been placed in service as of March 31, 2010 and consequently no related depreciation has been recorded.

(c) Recognition of Income and Net Asset Classification

ZUMIX, Inc. reports gifts as unrestricted support if they are received without donor stipulations which would limit the use of the donated assets. They are classified as increases in temporarily restricted net assets if the donor imposes restrictions on their use, including those for which payment is not due until future periods. Upon the satisfaction of the usage or time restriction, the net assets are reclassified as unrestricted support.

Contributions of long-lived assets (including enhancements to long-lived fixed assets) and amounts restricted for the purchase of long-lived assets, for which the donor does not specify a particular period of use, are treated as increases in temporarily restricted net assets when received and re-classified as unrestricted at the time the asset is placed in service.

ZUMIX, Inc.'s contributions come primarily from the general public, private foundations, corporations and certain governmental agencies.

(d) Cash and Cash Equivalents

For the purpose of the statement of cash flows, ZUMIX, Inc. considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Certain grants require the Organization to hold cash in separate bank accounts. The total amount of cash held in separate accounts is \$550 as of March 31, 2010.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(2) Summary of Significant Accounting Policies (continued)

(e) Concentrations of Credit Risk

Financial instruments which subject ZUMIX, Inc. to credit risk consist principally of temporary cash investments, amounts held in escrow and notes receivable. Temporary cash investments may at times exceed amounts insured by the FDIC. ZUMIX, Inc. places its temporary cash investments with high quality financial institutions. At March 31, 2010 balances in cash and temporary cash investment accounts exceeded the amount insured by the FDIC by \$49,085.

Amounts held in escrow are held in a single depository institution and exceeded FDIC insured limits by \$277,044 at March 31, 2010.

Notes receivable are due to the Organization from a single borrower (see Note 7 for further information regarding the concentration). The Organization does not require collateral or other security to support notes receivable or other financial instruments to subject to credit risk.

(f) Income Taxes

ZUMIX, Inc and ZUMIX Firehouse, Inc. are not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code and are exempt from income tax.

(g) Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(h) Advertising Costs

ZUMIX, Inc. expenses advertising costs as they are incurred. Advertising expense was \$10,957 for the year ended March 31, 2010.

(i) Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying value of financial instruments in the financial statements approximates fair value.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(2) Summary of Significant Accounting Policies (continued)

(j) Debt Issuance Costs

Debt issuance costs include amounts paid by the Organization in connection with the issuance of long-term mortgage notes payable issued in December of 2008 to finance the Firehouse project, as well as the fair value of contributed legal services directly allocable to the issuance of these notes. Amortization of debt issuance costs is calculated using the straight-line method over the 30-year term of the notes. As of March 31, 2010 debt issuance costs are presented net of accumulated amortization of \$8,034.

The Organization's policy is to recognize contributed legal services capitalized as debt issuance costs as an increase in temporarily restricted net assets when received. As the contributed debt issuance costs are amortized into expense the Organization simultaneously recognizes a corresponding decrease in temporarily restricted net assets and an equal increase in unrestricted net assets.

(k) Change in accounting policy

During the year ended March 31, 2009, ZUMIX, Inc.'s policy was to report as unrestricted support contributions with donor-imposed restrictions when these restrictions were met in the same year that the contribution was received. During the year ended March 31, 2010 ZUMIX, Inc. adopted a policy of reporting such contributions as increases as temporarily restricted net assets and showing the satisfaction of usage restrictions met during the same year the contribution was received as a reclassification to unrestricted net assets in the Organization's consolidated statement of activities.

This change in policy had no effect on the Organization's net asset balances or net operating results.

(3) Commitments

ZUMIX, Inc. leases office and studio space in East Boston, Massachusetts from an unrelated party under a tenant at-will agreement. The annual rent expense amounted to \$23,600 for the year ended March 31, 2010.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of March 31, 2010:

Contributed debt issuance costs to be amortized in future periods	\$	107,312
Contributed long-lived fixed asset additions to be placed in service		91,193
	\$	<u>198,505</u>

Net assets of \$793,130 were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows during the year ended March 31 2010:

Purpose restrictions accomplished:

Capital Project	\$	517,830
Amortization of contributed debt issuance costs		3,700
Fixed assets placed in service		36,000
Youth programs		208,044
Community Arts		27,556
	\$	<u>793,130</u>

(5) Accounts Receivable

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Based on management's assessment of the credit history with donors having outstanding balances, and current relationships with them, it has been determined that realization losses on balances outstanding at year-end are immaterial.

All accounts receivable at March 31, 2010 were expected to be collected in less than one year.

(6) Amounts Held in Escrow

An amount of \$527,044 is held in escrow by MHIC exclusively for future costs of the development of the firehouse property. These funds will be disbursed to finance approved costs that have been incurred. Because these funds are set aside for the purchase of long-lived assets, the amount held in escrow is classified as non-current in the consolidated statement of financial position.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(7) Long-Term Notes Receivable, Net

ZUMIX, Inc. has made two sponsor loans, totaling \$1,979,662 to MHIC New Markets Fund II in exchange for notes receivable (as described in the following table). The proceeds of these loans were used by MHIC New Markets Fund II for the purpose of making Qualified Equity Investments of \$1,587,757 and \$391,805, in MHIC New Markets CDE II Series 5, LLC and Nuestra Commercial Markets Fund 2008, LLC respectively. These respective entities subsequently used these funds for making 0% stated interest rate loans to ZUMIX Firehouse, Inc. of \$1,587,737 and \$391,805. The financing was structured in this manner in order to increase the amount of Qualified Equity Investment in MHIC New Markets Fund II to \$4,172,904 - thereby increasing the dollar amount of New Markets Tax Credits allocable to equity investors to a total of approximately \$1.6 million.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(7) Long-Term Notes Receivable, Net (continued)

Notes receivable are recorded initially at fair value and then amortized using the effective interest method.

Long-term notes receivable are as follows at March 31 2010:

Contractual amounts receivable (face amounts):

Tranche A note receivable from MHIC New Markets Fund II with a stated interest rate of 0%. Under loan agreement, ZUMIX, Inc. is to receive monthly payments of \$5,293 beginning November, 2017 with the balance of note payable to ZUMIX, Inc. due at the December 2038 maturity date	\$ 1,587,857
Tranche B note receivable from MHIC New Markets Fund II, stated interest rate of 0%, face value of note payable to ZUMIX, Inc. December 2038	391,805
	<u>1,979,662</u>
Less unamortized discounts for below-market rate loans:	
Tranche A note receivable from MHIC New Markets Fund II (calculated using imputed effective interest rate of 5.38%)	(989,033)
Tranche B Note receivable from MHIC New Markets Fund II (calculated using imputed effective interest rate of 5.38%)	(305,115)
	<u>(1,294,148)</u>
Long-term notes receivable, net of discount	<u>\$ 685,514</u>

It is the Organization's intent to use the proceeds received from these notes receivable agreements to repay the Organization's long-term first mortgages (as described in Note 11). Accordingly these assets are considered to have been set aside for the repayment of long-term debt.

Interest income for the year ended March 31, 2010 includes \$34,982 which represents the amortization of the original issue discounts on long-term notes receivable.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(8) Deferred Financing Costs

Deferred financing costs of \$1,294,148 (net of \$41,932 of accumulated amortization) represent the asset deemed to have been received by ZUMIX, Inc. in exchange for accepting the Tranche A and Tranche B notes receivable at below-market interest rates. ZUMIX, Inc.'s policy is to amortize deferred financing costs ratably over the life of the associated notes receivable using the effective interest method.

(9) Property and Equipment

A summary of property and equipment at March 31, 2010 follows:

Furniture and fixtures	\$ 17,125
Computer equipment	150,066
Land	227,998
Building and improvements	<u>284,738</u>
	679,927
Less accumulated depreciation	(6,666)
Construction in progress	<u>2,801,094</u>
Property, plant and equipment, net	<u>\$ 3,474,355</u>

As of March 31, 2010 Construction in progress includes a total of \$72,421 of capitalized interest costs incurred during the period of construction. \$5,192 of the amount of interest capitalized represents cash payments made on outstanding borrowings and \$67,229 represents imputed interest on long-term notes payable. All capitalized interest costs were incurred during the year ended March 31, 2010.

ZUMIX, Inc. has commitments to expend approximately \$527,044 to complete the renovation of the Engine Company 40 Firehouse in East Boston, which it will use for office space and program activities.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(10) Note Payable, Short-Term

During the year ended March 31, 2009 the Organization borrowed \$500,000 under a short-term note payable agreement. The proceeds of this note were used by ZUMIX, Inc. for the purpose of making the \$166,000 equity investment in ZFI and for financing \$334,000 of the total \$1,979,662 of funds loaned by ZUMIX, Inc. to MHIC New Markets Fund II. The note bears interest at an amount equal to the Wall Street Journal Prime Rate, floating plus 1% (4.25% per annum at March 31, 2010), payable monthly. At March 31, 2010 the outstanding principal balance on this note was \$160,000. No principal payments are due until maturity (June 30, 2010 when the note was paid in full - see Note 15). The note is secured by all current and future pledges, contributions, commitments or donations to Zumix, Inc. for the Firehouse Project and Property, excluding pledges or donations restricted for the Borrower's programs and general operations, in an amount not to exceed the loan.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(11) Long-Term Mortgage Notes Payable

Long-term mortgage notes payable are as follows at March 31 2010:

0% note payable to MHIC New Markets CDE II Series 5, LLC. Secured by a shared first mortgage and security interest in land and building, carrying value of \$3,313,034 (including \$2,801,094 of construction in progress). Monthly payments of \$5,394 due beginning November 2017 through December 2038 (maturity date).	\$ 1,587,757
0% note payable to Nuestra Commercial Markets Fund 2008, LLC Secured by a shared first mortgage and security interest in land and building, carrying value of \$3,313,034 (including \$2,801,094 of construction in progress). All principal payable at maturity (December 2038).	391,805
0.50% Note payable to MHIC New Markets CDE II Series 5, LLC. Secured by a shared second mortgage and security interest in land and building, carrying value of \$3,313,034 (including \$2,801,094 of construction in progress). Payments of interest only in arrears, calculated using the stated interest rate applied to the outstanding principal balance are due monthly. Monthly payments of principal only of \$2,749 are due beginning November 2017 through December 2038 (maturity date), balance of principal due at maturity.	824,685
1.50% Note payable to Nuestra Commercial Markets Fund 2008, LLC. Secured by a shared second mortgage and security interest in land and building, carrying value of \$3,313,034 (including \$2,801,094 of construction in progress). Payments of interest only in arrears, calculated using the stated interest rate applied to the outstanding principal balance are due monthly. All principal payable at maturity (December 2038).	133,645
0% Note Payable to MHIC New Markets CDE II Series 5, LLC. Secured by a third mortgage and security interest in land building, carrying values of \$3,313,034 (including \$2,801,094 of construction in progress). Payments of \$3,067 due monthly beginning November 2017, balance of principal payable at maturity (December 2038). Guaranteed by East Boston CDC.	920,000
	<u>3,857,892</u>
Discount for imputed interest on below-market interest rate loans	<u>(2,586,283)</u>
Long-term notes payable, net	<u>\$ 1,271,609</u>

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(11) Long-Term Mortgage Notes Payable (continued)

A discount on below-market interest loans is imputed using interest rates ranging from 5.38% to 8.34%.

No interest expense was recorded related to the amortization of discounts on long-term notes payable for the year ended March 31, 2010 as all imputed interest costs incurred during this period were capitalized as a component of construction in progress (see Note 9).

Under the terms of each of the respective long-term note payable agreements, ZUMIX, Inc. will incur a prepayment penalty should it elect to repay amounts of principal on or before a specified lockout date of December 18, 2016 (the "Lockout Date"). The prepayment penalty is equal to the amount of all interest that would have been payable on the outstanding principal balance of each respective note (for which prepayment is made) from the date of prepayment to the Lockout Date calculated at a rate of 20% per annum.

Future maturities of long-term debt are as follows for the years ended March 31:

2011	\$	-
2012		-
2013		-
2014		-
2015		-
Thereafter		<u>3,857,892</u>
Total	\$	<u>3,857,892</u>

(12) Deferred Income

In connection with the purchase and renovation of the firehouse, the Organization entered into several long-term debt financing agreements by borrowing cash in the amount of \$3,857,892 and issuing long-term notes payable with a face amounts totaling \$3,857,892 (see Note 11). The Organization's policy is to report long-term notes payable at the net present value at the time of issuance, net of any amortized discount or premium. In accordance with this policy, management recorded discounts on these notes payable amounting to \$2,565,213 at the time of their issuance, as the Organization deemed the stated interest rates on these notes to be below market rates at that time. In connection with the receipt of this below-market financing the Organization also recognized deferred income in the amount of \$2,656,213 which the Organization will amortize into income over the lives of the notes using the effective interest rate method. Amortization of deferred income was \$67,229 for the year ended March 31, 2010.

ZUMIX, INC.

Notes to Consolidated Financial Statements

March 31, 2010

(13) Credit Card Line of Credit

ZUMIX, Inc. has a business line of credit available from a credit card company allowing for purchases or cash borrowings. At March 31, 2010, the Organization had no outstanding cash borrowings and had an outstanding balance from purchases of \$1,460. At March 31, 2010, the Organization had remaining credit available for purchases of \$20,340 and \$5,600 for cash advances. Minimum monthly payments, which vary according to the outstanding balances, are due under the agreement including interest at 14.99% for purchases and 21.99% for cash advances, at March 31, 2010.

(14) Interest Cost

Total interest cost for the year ended March 31, 2010 was \$79,338. Interest costs of \$6,917 and \$72,421, were charged to expense and capitalized, respectively (see Note 9).

(15) Subsequent Events

The Organization has evaluated all subsequent events through August 2, 2010, the date the financial statements were available to be issued.

During April of 2010 the Massachusetts Historical Commission awarded ZFI a Historic Rehabilitation Credit, certificate # HRC.144A with a nominal value of \$400,000. On May 6, 2010, ZFI sold these tax credits for \$360,000. All income from the award and sale of these tax credits was recognized by the Organization during the year ended March 31, 2011. During the year ended March 31, 2010 the Organization incurred and recognized \$4,067 in transaction costs related to the planned sale of these tax credits. Subsequent to March 31, 2010, the Organization incurred an additional \$21,308 in sale-related transaction costs.

On June 30, 2010, ZUMIX, Inc. paid Non-profit Finance Fund \$160,000 to retire its Line of Credit with that agency.

ZUMIX, INC.

Supplemental Consolidating Schedule of Financial Position

March 31, 2010

	ZUMIX			
	ZUMIX, Inc.	Firehouse, Inc.	Elimination	Consolidated
Assets:				
Current assets:				
Cash and cash equivalents	\$ 276,315	\$ 1,692	\$ -	\$ 278,007
Accounts receivable, net of allowance for bad debts of \$2,200	40,222	-	-	40,222
Prepaid expenses and other current assets	2,207	-	-	2,207
Due from affiliate	-	672	(672)	-
Total current assets	<u>318,744</u>	<u>2,364</u>	<u>(672)</u>	<u>320,436</u>
Amounts held in escrow	-	527,044	-	527,044
Property and equipment, net	215,619	3,614,736	(356,000)	3,474,355
Notes receivable long-term - contractual principal	1,979,662	-	-	1,979,662
Discount for below-market rates	(1,294,148)	-	-	(1,294,148)
Notes receivable long-term, net of discount	<u>685,514</u>	<u>-</u>	<u>-</u>	<u>685,514</u>
Deferred debt issuance costs, net of accumulated amortization	-	232,978	-	232,978
Deferred financing costs, net of accumulated amortization	1,294,148	-	-	1,294,148
Interest in the net assets of ZUMIX Firehouse, Inc.	<u>166,000</u>	<u>-</u>	<u>(166,000)</u>	<u>-</u>
Total assets	<u>\$ 2,680,025</u>	<u>\$ 4,377,122</u>	<u>\$ (522,672)</u>	<u>\$ 6,534,475</u>
Liabilities and Net Assets:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 37,174	\$ 90,204	\$ -	\$ 127,378
Due to affiliate	672	-	(672)	-
Note payable, short-term	160,000	-	-	160,000
Total current liabilities	<u>197,846</u>	<u>90,204</u>	<u>(672)</u>	<u>287,378</u>
Deferred income	-	2,586,283	-	2,586,283
Long-term mortgage notes payable - contractual principal	-	3,857,892	-	3,857,892
Discount for below-market rates	-	(2,586,283)	-	(2,586,283)
Long-term mortgage notes payable, net of discount	<u>-</u>	<u>1,271,609</u>	<u>-</u>	<u>1,271,609</u>
Net assets:				
Unrestricted net assets	\$ 2,482,179	\$ 64,521	\$ (356,000)	\$ 2,190,700
Temporarily restricted net assets	-	364,505	(166,000)	198,505
Total net assets	<u>2,482,179</u>	<u>429,026</u>	<u>(522,000)</u>	<u>2,389,205</u>
Total liabilities and net assets	<u>\$ 2,680,025</u>	<u>\$ 4,377,122</u>	<u>\$ (522,672)</u>	<u>\$ 6,534,475</u>

