

**ZUMIX, INC. AND AFFILIATE**

Consolidated Financial Statements

March 31, 2012 and 2011

(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 statements of financial position of ZUMIX, Inc. and affiliate (the Organization) as of March 31, 2012 and 2011 and the related consolidated statements of cash flows for the years then ended, and the consolidated statements of activities and changes in net assets and functional expenses for the year ended March 31, 2012. 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 audits. The prior year summarized comparative information has been derived from the Organization's March 31, 2011 consolidated financial statements and, in our report dated November 10, 2011, we expressed an unqualified opinion on those financial statements.

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 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 audits provide 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, 2012 and 2011 and the changes in its cash flows for the years then ended and the changes in its net assets for the year ended March 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental consolidating schedule of financial position as of March 31, 2012 and the supplemental consolidating statement of activities and changes in net assets for the year then ended are presented for the purposes of additional analysis and are not a required part of the March 31, 2012 consolidated financial statements. Such information is the responsibility of the management of ZUMIX, Inc. and was derived from and relates directly to the accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the March 31, 2012 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the March 31, 2012 consolidated financial statements taken as a whole.

*Nardella & Taylor, LLP*

September 12, 2012

# ZUMIX, Inc. and Affiliate

## Consolidated Statements of Financial Position March 31, 2012 and 2011

	2012	2011
<i>Assets</i>		
Current assets		
Cash and cash equivalents	\$ 572,614	\$ 437,840
Amounts held for others	13,002	8,508
Unconditional promises to give, net	291,481	164,562
Prepaid expenses and other current assets	8,290	4,750
Total current assets	885,387	615,660
Unconditional promises to give, net of current portion	75,000	150,000
Restricted cash and amounts held in escrow	130,000	130,000
Property and equipment, net	3,616,421	3,749,932
Notes receivable, net	761,123	722,378
Deferred debt issuance costs, net	216,910	224,944
Deferred financing costs, net	1,218,439	1,257,284
Total assets	\$ 6,903,280	\$ 6,850,198
<i>Liabilities and Net Assets</i>		
Current liabilities		
Accounts payable and accrued expenses	\$ 48,794	\$ 39,718
Amounts held for others	13,002	8,508
Total current liabilities	61,796	48,226
Deferred income	2,478,575	2,515,701
Mortgage notes payable, net	1,379,317	1,342,191
Total liabilities	3,919,688	3,906,118
Net assets		
Unrestricted	2,490,567	2,502,753
Temporarily restricted	493,025	441,327
Total net assets	2,983,592	2,944,080
Total liabilities and net assets	\$ 6,903,280	\$ 6,850,198

## ZUMIX, Inc. and Affiliate

### Consolidated Statement of Activities and Changes in Net Assets For the Year Ended March 31, 2012 (With Comparative Totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2012</u>	<u>Total 2011</u>
Support and revenue				
Individual donations	\$ 60,491	\$ -	\$ 60,491	\$ 38,052
Events	85,399	-	85,399	53,512
Corporate and foundation donations	521,939	210,000	731,939	879,823
Government grants	48,264	-	48,264	43,042
Proceeds from sale of historic tax credits	-	-	-	360,000
Program fees	96,585	-	96,585	68,719
Interest income	50,978	-	50,978	41,263
Amortization of deferred income from below-market interest rate loans	75,160	-	75,160	70,582
Rental income	9,859	-	9,859	2,456
Sale of product	3,987	-	3,987	6,077
Other income	1,465	-	1,465	-
Net assets released from restriction	158,302	(158,302)	-	-
<b>Total support and revenue</b>	<u>1,112,429</u>	<u>51,698</u>	<u>1,164,127</u>	<u>1,563,526</u>
Expenses				
Youth programs	827,338	-	827,338	715,265
Community arts program	78,512	-	78,512	58,206
Management and general	173,296	-	173,296	100,518
Fundraising	45,469	-	45,469	70,325
Capital project	-	-	-	64,337
<b>Total expenses</b>	<u>1,124,615</u>	<u>-</u>	<u>1,124,615</u>	<u>1,008,651</u>
Increase (decrease) in net assets	(12,186)	51,698	39,512	554,875
Net assets, beginning of year	<u>2,502,753</u>	<u>441,327</u>	<u>2,944,080</u>	<u>2,389,205</u>
Net assets, end of year	<u>\$ 2,490,567</u>	<u>\$ 493,025</u>	<u>\$ 2,983,592</u>	<u>\$ 2,944,080</u>

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

## ZUMIX, Inc. and Affiliate

### Consolidated Statement of Functional Expenses For the Year Ended March 31, 2012 (With Comparative Totals for 2011)

	Youth Programs	Community Arts	Total Program Services	Management and General	Fundraising	2012 Totals	2011 Totals
Salaries	\$ 265,179	\$ 30,943	\$ 296,122	\$ 58,653	\$ 26,781	\$ 381,556	\$ 314,136
Youth stipends	3,479	2,221	5,700	-	-	5,700	10,359
Employee benefits	31,356	1,333	32,689	4,661	2,128	39,478	25,973
Payroll taxes	22,224	2,570	24,794	4,911	2,242	31,947	26,881
<b>Total salaries and related expenses</b>	<b>322,238</b>	<b>37,067</b>	<b>359,305</b>	<b>68,225</b>	<b>31,151</b>	<b>458,681</b>	<b>377,349</b>
Consulting	134,438	19,223	153,661	59,131	1,548	214,340	225,530
Bank fees and payroll fees	4,897	-	4,897	57	-	4,954	6,156
Advertising	10,357	8,941	19,298	1,318	-	20,616	6,376
Bad debt expense	-	-	-	1,454	-	1,454	677
Supplies	5,745	669	6,414	6,026	100	12,540	11,060
Telephone	8,961	691	9,652	-	-	9,652	5,969
Postage and shipping	2,463	298	2,761	-	-	2,761	2,803
Rent	626	78	704	78	-	782	10,892
Equipment rental and maintenance	7,943	1,421	9,364	2,656	-	12,020	17,905
Printing and publications	994	8	1,002	33	-	1,035	5,773
Facilities maintenance and repair	19,745	2,935	22,680	2,804	-	25,484	31,817
Travel	14,008	90	14,098	4,230	-	18,328	17,791
Conferences, conventions and meetings	2,722	4,897	7,619	6,232	-	13,851	18,753
Insurance	6,258	-	6,258	1,565	-	7,823	8,598
Utilities	13,687	1,802	15,489	2,531	-	18,020	19,880
Depreciation	156,368	356	156,724	10,550	6,264	173,538	133,849
Vehicle expense	131	36	167	-	-	167	35
Interest expense	115,307	-	115,307	6,406	6,406	128,119	105,775
Other expenses	450	-	450	-	-	450	1,663
	<b>\$ 827,338</b>	<b>\$ 78,512</b>	<b>\$ 905,850</b>	<b>\$ 173,296</b>	<b>\$ 45,469</b>	<b>\$ 1,124,615</b>	<b>\$ 1,008,651</b>

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

## ZUMIX, Inc. and Affiliate

### Consolidated Statements of Cash Flows For the Years Ended March 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Increase in net assets	\$ 39,512	\$ 554,875
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of deferred financing and debt issuance costs	46,880	44,897
Amortization of discount on notes receivable	(43,545)	(36,864)
Amortization of deferred income	(75,160)	(70,582)
Amortization of discount on mortgage notes payable	75,160	57,217
Depreciation	173,538	133,849
Decrease (increase) in		
Accounts receivable	(51,919)	(274,340)
Prepaid expenses	(3,540)	(2,543)
Increase (decrease) in		
Accounts payable and accrued expenses, net of change in payables related to property and equipment	4,474	(4,529)
Net cash provided by operating activities	165,400	401,980
Cash flows from investing activities		
Purchases of property and equipment	(30,626)	(479,191)
Net cash used in investing activities	(30,626)	(479,191)
Cash flows from financing activities		
Decrease (increase) in restricted cash and amounts held in escrow	-	397,044
Net decrease in borrowings under short-term financing arrangements	-	(160,000)
Net cash provided by financing activities	-	237,044
Net increase in cash and cash equivalents	134,774	159,833
Cash and cash equivalents, beginning of year	437,840	278,007
Cash and cash equivalents, end of year	\$ 572,614	\$ 437,840
<i>Supplemental Disclosure of Non-Cash Investing and Financing Activities</i>		
Contributions of equipment	\$ 2,500	\$ -
Contributed services	100	
Contributions of supplies	6,122	3,165
	\$ 8,722	\$ 3,165
Cash paid for interest, net of interest capitalized	\$ 6,078	\$ 7,941

## ZUMIX, Inc. and Affiliate

### Notes to Consolidated Financial Statements March 31, 2012 and 2011

#### 1. Nature of Operations

ZUMIX, Inc. (the “Organization”) 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 the Organization 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

##### *Basis of Accounting*

The financial statements were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

##### *Basis of Presentation*

The Organization is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets represent amounts without donor-imposed time or purpose restrictions as of the reporting date. Temporarily restricted net assets represent amounts received with donor-imposed time restrictions that have not yet expired or donor-imposed purpose restrictions which have not yet been satisfied by the Organization. Permanently restricted net assets represent amounts with donor-imposed restrictions requiring those amounts to be held in perpetuity. None of the Organization’s net assets are classified as permanently restricted as of March 31, 2012 and 2011.

##### *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

##### *Comparative Financial Information*

The financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended March 31, 2011, from which the summarized information was derived.

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Organization and its related entity ZUMIX Firehouse, Inc. (“ZFI”). The Organization 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). Management has deemed that these factors together constitute both an “economic interest” and “control,” requiring consolidation under GAAP. The accounts of ZFI are included as of December 31, 2012 and 2011. All significant intercompany transactions and balances have been eliminated in consolidation.

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**2. Summary of Significant Accounting Policies (Continued)**

*Principles of Consolidation (Continued)*

ZFI, 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 (the “Firehouse Property”) in order to turn the building into a vibrant youth arts center.

The Firehouse Property project had 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:

Equity investments in New Markets Tax Credits by multiple investors	\$ 1,273,242
Loan from East Bost Community Development Corporation	920,000
Two sponsor loans from the Organization	<u>1,979,662</u>
	<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’s transaction costs as follows:

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



**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**2. Summary of Significant Accounting Policies (Continued)**

*Principles of Consolidation (Continued)*

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	<u>78,014</u>
 Total fees, third party costs and reserves	 <u>297,062</u>
 Loans to ZFI	
MHIC New Markets CDE II Series 5, LLC	3,332,442
Nuestra Commercial Markets Fund 2008, LLC	<u>525,450</u>
 Total loans to ZFI	 <u>3,857,892</u>
	<u><u>\$ 4,154,954</u></u>

Additionally, The Organization 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 Firehouse Property from the previous owner. Events occurring at that date are described as having occurred “at closing.”

In connection with the Firehouse Property 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 the Organization	350,000
Fee paid at completion to the Organization	<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 the Organization represents a payment for management of the predevelopment process.

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**2. Summary of Significant Accounting Policies (Continued)**

*Principles of Consolidation (Continued)*

The \$130,000 was due at completion (April 1, 2010) to the Organization and is for the purpose of establishing an operating reserve of \$50,000 and a debt service escrow of \$80,000. This amount was due to the Organization from ZFI as of December 31, 2010 and March 31, 2011 and remained due to the Organization from ZFI as of December 31, 2011 and March 31, 2012.

*Restricted and Unrestricted Revenue*

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions of long-lived assets (including enhancements to property and equipment) 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.

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

*Cash and Cash Equivalents*

The Organization 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 was \$5,567 and \$5,557 as of March 31, 2012 and 2011, respectively.

*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 as follows:

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**2. Summary of Significant Accounting Policies (Continued)**

*Property and Equipment (Continued)*

Furniture, fixtures and equipment	5 - 10 years
Building	40 years
Building improvements	30 years

*Notes Receivable*

Notes receivable are stated at unpaid principal balances, less unearned discounts. Unearned discounts are recognized as interest income over the term of the loans using the effective interest method.

*Deferred Financing Costs*

Deferred financing costs associated with the issuance of notes receivable at below-market rates are capitalized and amortized over the lives of the respective notes using the effective interest method. Amortization of deferred financing costs is included in interest expense in the accompanying consolidated statement of activities

*Deferred Debt Issuance Costs*

Deferred 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 Property project, as well as the fair value of contributed legal services directly allocable to the issuance of these notes. Amortization of deferred debt issuance costs is calculated using the straight-line method over the 30-year term of the notes. As of March 31, 2012 and 2011 debt issuance costs are presented net of accumulated amortization of \$24,102 and \$16,068, respectively.

The Organization's policy is to recognize contributed legal services capitalized as deferred debt issuance costs as an increase in temporarily restricted net assets when received. As the contributed deferred 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. Amortization of deferred debt issuance costs is included in interest expense in the accompanying consolidated statement of activities.

*Advertising Expenses*

The Organization expenses advertising costs as incurred. Advertising expense amounted to \$20,616 and \$6,376 for the years ended March 31, 2012 and 2011, respectively.

## ZUMIX, Inc. and Affiliate

### Notes to Consolidated Financial Statements March 31, 2012 and 2011

#### 2. Summary of Significant Accounting Policies (Continued)

##### *Income Taxes*

The Organization and ZFI are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Massachusetts state income tax under Massachusetts General Law 180. The Organization and ZFI qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(2).

Management evaluates all significant tax positions as required by GAAP. As of March 31, 2012 and 2011, management does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Organization's and ZFI's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdictions.

##### *Fair Value Measurement*

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

## ZUMIX, Inc. and Affiliate

### Notes to Consolidated Financial Statements March 31, 2012 and 2011

#### 3. Unconditional Promises to Give

Unconditional promises to give 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.

Unconditional promises to give are due to be collected according to the following schedule as of March 31:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 293,481	\$ 167,439
Between one and five years	<u>75,000</u>	<u>150,000</u>
	368,481	317,439
Allowance for bad debts	<u>(2,000)</u>	<u>(2,877)</u>
	<u>\$ 366,481</u>	<u>\$ 314,562</u>

#### 4. Restricted Cash and Amounts Held in Escrow

Restricted cash and amounts held in escrow of \$130,000 as of March 31, 2012 represent funds held by MHIC on behalf of ZFI. Amounts held in escrow at March 31, 2012 consist of an \$80,000 debt service escrow and \$50,000 which serves as an operating reserve. As of March 31, 2011 restricted cash and amounts held in escrow consisted of funds held by the Organization which were set aside for the purpose of establishing the \$130,000 escrow account with MHIC.

#### 5. Notes Receivable

The Organization 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 \$1,587,857 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 ZFI of \$1,587,857 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. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**5. Notes Receivable (Continued)**

Notes receivable consist of the following as of March 31:

	<b>2012</b>	<b>2011</b>
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, the Organization is to receive monthly payment of \$5,293 beginning November 2017 with the balance of the note receivable due at maturity in December 2038.	\$ 1,587,857	\$ 1,587,857
Tranche B note receivable from MHIC New Markets Fund II with a stated interest rate of 0%. The balance of the note receivable due at maturity in December 2038.	391,805	391,805
	1,979,662	1,979,662
Less unamortized discounts for below-market rate loans:		
Tranche A note receivable from MHIC New Markets Fund II (calculated using imputed interest rate of 5.38%)	(922,900)	(956,832)
Tranche B note receivable from MHIC New Markets Fund II (calculated using imputed interest rate of 5.38%)	(295,539)	(300,452)
	(1,218,439)	(1,257,284)
Notes receivable, net of discount	\$ 761,223	\$ 722,378

It is the Organization's intent to use the proceeds received from these notes receivable agreements to repay the Organization's mortgage notes payable as described further in Note 8. Accordingly these notes receivable are considered to have been set aside for the repayment of long-term debt.

Interest income for the years ended March 31, 2012 and 2011 include \$38,846 and \$36,863, respectively, which represent the amortization of the original issue discounts on notes receivable.

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
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**6. Property and Equipment**

Property and equipment consists of the following as of March 31:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 32,026	\$ 32,026
Motor vehicle	22,423	22,423
Computer equipment	211,405	194,115
Website	16,000	-
Land	227,998	227,998
Building and improvements	<u>3,420,622</u>	<u>3,413,885</u>
	3,930,474	3,890,447
Less accumulated depreciation and amortization	<u>(314,053)</u>	<u>(140,515)</u>
Property and equipment, net	<u><u>\$ 3,616,421</u></u>	<u><u>\$ 3,749,932</u></u>

As of March 31, 2011, building and improvements include \$82,752, net of accumulated amortization of \$2,122, of capitalized interest costs incurred during the period of construction.

As of March 31, 2012, building improvements include \$79,923, net of accumulated amortization of \$4,951, of capitalized interest costs incurred during the period of construction.

During the year ended March 31, 2011, the Organization capitalized \$17,645 of interest costs representing imputed interest on mortgage notes payable.

**7. Deferred Financing Costs**

Deferred financing costs of \$1,218,439 and \$1,257,284 as of March 31, 2012 and 2011, respectively, net of accumulated amortization of \$ 117,641 and \$78,796, respectively, represent the asset deemed to have been received by the Organization in exchange for accepting the Tranche A and Tranche B notes receivable at below-market interest rates.

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**8. Mortgage Notes Payable**

Mortgage notes payable consist of the following as of March 31:

	<u>2012</u>	<u>2011</u>
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 \$3,563,971. Monthly payments of \$5,394 due beginning November 2017 through December 2038.	\$ 1,587,757	\$ 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 \$3,563,971. All principal payable at maturity in December 2038.	391,805	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 \$3,563,971. Payments of interest only in arrears, calculated using the stated 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, balance due at maturity in December 2038.	824,685	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 \$3,563,971. 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 in December 2038.	133,645	133,645
0% note payable to MHIC New Markets CDE II Series 5, LLC. Secured by a third mortgage and security in land and building, carrying value of \$3,563,971. Payments of \$3,067 due monthly beginning November 2017 through December 2038, balance due at maturity in December 2038. Guaranteed by East Boston CDC.	<u>920,000</u>	<u>920,000</u>
	3,857,892	3,857,892
Discount for imputed interest on below-market interest rate loans	<u>(2,478,575)</u>	<u>(2,515,701)</u>
Mortgage notes payable, net	<u>\$ 1,379,317</u>	<u>\$ 1,342,191</u>



## ZUMIX, Inc. and Affiliate

### Notes to Consolidated Financial Statements March 31, 2012 and 2011

#### 8. Mortgage Notes Payable (Continued)

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

For the years ended March 31, 2012 and 2011, interest expense included \$75,160 and \$52,937 related to the amortization of discounts on mortgage notes payable.

Under the terms of each of the respective mortgage note payable agreements, the Organization 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:

2013	\$	-
2014		-
2015		-
2016		-
2017		-
Thereafter		<u>3,857,892</u>
	\$	<u><u>3,857,892</u></u>

#### 9. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Amounts restricted for use in future periods	\$ 300,000	\$ 300,000
Amounts restricted for purchase of program equipment	37,447	42,049
Contributed debt issuance costs to be amortized in future periods	95,578	99,278
Amounts restricted for capacity building	<u>60,000</u>	<u>-</u>
	<u>\$ 493,025</u>	<u>\$ 441,327</u>

## ZUMIX, Inc. and Affiliate

### Notes to Consolidated Financial Statements March 31, 2012 and 2011

#### 9. Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses or otherwise satisfying the purpose restrictions specified by donors as follows during the years ended March 31:

	<u>2012</u>	<u>2011</u>
Expiration of donor-imposed time restrictions:	\$ 150,000	\$ -
Purpose restrictions accomplished:		
Capital project related	4,602	43,351
Amortization of contributed debt issuance costs	3,700	8,034
Property and equipment placed in service		91,193
Youth programs	-	309,640
Community arts	-	17,500
	<u>8,302</u>	<u>469,718</u>
Net assets released from restrictions	<u>\$ 158,302</u>	<u>\$ 939,436</u>

#### 10. Deferred Income

In connection with the purchase and renovation of the Firehouse Property, the Organization entered into several long-term financing agreements by issuing mortgage notes payable with face amounts totaling \$3,857,892 as described in Note 8. 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 \$2,656,213 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 \$75,160 and \$70,582 for the years ended March 31, 2012 and 2011, respectively.

#### 11. Credit Card Line of Credit

The Organization has a business line of credit available from a credit card company allowing for purchases or cash borrowings. As of March 31, 2012, the Organization had no outstanding cash borrowings and had an outstanding balance from purchases of \$1,891 which is included in accounts payable and accrued expenses. As of March 31, 2011, the Organization has remaining credit available for purchases of \$30,809 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, as of March 31, 2012.

As of March 31, 2011, the Organization had no outstanding cash borrowings and had an outstanding balance from purchases of \$3,109 which is included in accounts payable and accrued expenses. As of March 31, 2011, the Organization has remaining credit available for purchases of \$18,691 and \$5,600 for cash advances.

## **ZUMIX, Inc. and Affiliate**

### **Notes to Consolidated Financial Statements March 31, 2012 and 2011**

#### **12. Sale of Historic Rehabilitation Credit**

In April 2010, the Massachusetts Historical Commission awarded ZFI a Historic Rehabilitation Credit, certificate # HRC.144A, with a nominal value of \$400,000 in connection with the Firehouse Property project. In May 2010, ZFI sold these tax credits for \$360,000. During the year ended March 31, 2011 the Organization incurred expenses of \$21,308 related to the sale of these tax credits.

#### **13. Interest**

For the year ended March 31, 2012, total interest expense amounted to \$128,119. No interest was capitalized during the year ended March 31, 2012. Amortization of deferred financing and debt issuance costs included in interest expense amounted to \$46,880.

For the year ended March 31, 2011, total interest amounted to \$123,240. Interest of \$105,775 and \$17,645 was charged to expense and capitalized, respectively, as described in Note 5. Amortization of deferred financing and debt issuance costs included in interest expense amounted to \$44,897.

#### **14. Commitments**

Prior to completing the move to the Firehouse Property, the Organization leased office and studio space in East Boston, Massachusetts from an unrelated party under a tenant at-will agreement. For the year ended March 31, 2011 rent expense under this agreement amounted to \$10,892.

#### **15. Concentrations of Credit Risk**

Financial instruments which subject the Organization 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. Beginning December 31, 2010 through December 31, 2012, all non-interest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. All other accounts are insured up to \$250,000 per depositor, per insured bank. The Organization places its temporary cash investments with high quality financial institutions. At March 31, 2012 balances in cash and temporary cash investment accounts exceeded the amount insured by the FDIC by \$217,827.

Notes receivable are due to the Organization from a single borrower as described in Note 5. The Organization does not require collateral or other security to support notes receivable or other financial instruments subject to credit risk.

#### **16. Retirement Plan**

During the year ended March 31, 2012 the Organization began sponsoring a defined contribution retirement plan for eligible employees. The Organization did not make any contributions to the plan during the year ended March 31, 2012.

**ZUMIX, Inc. and Affiliate**

**Notes to Consolidated Financial Statements  
March 31, 2012 and 2011**

**17. Reclassification**

Certain amounts included in the consolidated financial statements for the year ended March 31, 2011 have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported consolidated net assets or changes in consolidated net assets.

**18. Subsequent Events**

The Organization has evaluated subsequent events through September 12, 2012, the date the financial statements were available for issuance.

## ZUMIX, Inc. and Affiliate

### Consolidating Statement of Financial Position (Supplementary Information) March 31, 2012

<i>Assets</i>	ZUMIX		Elimination	Consolidated
	ZUMIX, Inc.	Firehouse, Inc.		
Current assets				
Cash and cash equivalents	\$ 552,288	\$ 20,326	\$ -	\$ 572,614
Amounts held for others	13,002	-	-	13,002
Unconditional promises to give, net	291,478	3	-	291,481
Prepaid expenses and other current assets	8,290	-	-	8,290
Due from affiliate	130,000	23,100	(153,100)	-
Total current assets	995,058	43,429	(153,100)	885,387
Unconditional promises to give, net of current portion	75,000	-	-	75,000
Restricted cash and amounts held in escrow	-	130,000	-	130,000
Property and equipment, net	257,375	3,816,696	(457,650)	3,616,421
Notes receivable, net	761,123	-	-	761,123
Deferred debt issuance costs, net	-	216,910	-	216,910
Deferred financing costs, net	1,218,439	-	-	1,218,439
Interest in the net assets of ZUMIX Firehouse, Inc.	166,000	-	(166,000)	-
Total assets	<u>\$ 3,472,995</u>	<u>\$ 4,207,035</u>	<u>\$ (776,750)</u>	<u>\$ 6,903,280</u>
<i>Liabilities and Net Assets</i>				
Current liabilities				
Accounts payable and accrued expenses	\$ 48,266	\$ 528	\$ -	\$ 48,794
Amounts held for others	13,002	-	-	13,002
Due to affiliate	23,100	130,000	(153,100)	-
Total current liabilities	84,368	130,528	(153,100)	61,796
Deferred income	-	2,478,575	-	2,478,575
Mortgage notes payable, net	-	1,379,317	-	1,379,317
Total liabilities	<u>84,368</u>	<u>3,988,420</u>	<u>(153,100)</u>	<u>3,919,688</u>
Net assets				
Unrestricted	2,991,180	123,037	(623,650)	2,490,567
Temporarily restricted	397,447	95,578	-	493,025
Total net assets	<u>3,388,627</u>	<u>218,615</u>	<u>(623,650)</u>	<u>2,983,592</u>
Total liabilities and net assets	<u>\$ 3,472,995</u>	<u>\$ 4,207,035</u>	<u>\$ (776,750)</u>	<u>\$ 6,903,280</u>

*See report of independent auditors*

## ZUMIX, Inc. and Affiliate

### Consolidating Statement of Activities and Changes in Net Assets (Supplementary Information) For the Year Ended March 31, 2012

	ZUMIX, Inc.			ZUMIX Firehouse, Inc.			Elimination	Consolidated
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		
Support and revenue								
Individual donations	\$ 60,491	\$ -	\$ 60,491	\$ -	\$ -	\$ -	\$ -	\$ 60,491
Events	85,399	-	85,399	-	-	-	-	85,399
Corporate and foundation donations	521,939	210,000	731,939	-	-	-	-	731,939
Government grants	48,264	-	48,264	-	-	-	-	48,264
Program fees	96,585	-	96,585	-	-	-	-	96,585
Interest income	43,545	-	43,545	7,433	-	7,433	-	50,978
Amortization of deferred income								
from below-market interest rate loans	-	-	-	75,160	-	75,160	-	75,160
Rental income	9,859	-	9,859	10,905	-	10,905	(10,905)	9,859
Sale of product	3,987	-	3,987	-	-	-	-	3,987
Other income	-	-	-	1,465	-	1,465	-	1,465
Net assets released from restriction	154,602	(154,602)	-	3,700	(3,700)	-	-	-
<b>Total support and revenue</b>	<b>1,024,671</b>	<b>55,398</b>	<b>1,080,069</b>	<b>98,663</b>	<b>(3,700)</b>	<b>94,963</b>	<b>(10,905)</b>	<b>1,164,127</b>
Expenses								
Youth programs	652,561	-	652,561	198,083	-	198,083	(23,306)	827,338
Community arts program	79,603	-	79,603	-	-	-	(1,091)	78,512
Management and general	164,101	-	164,101	11,096	-	11,096	(1,901)	173,296
Fundraising	35,270	-	35,270	11,006	-	11,006	(807)	45,469
<b>Total expenses</b>	<b>931,535</b>	<b>-</b>	<b>931,535</b>	<b>220,185</b>	<b>-</b>	<b>220,185</b>	<b>(27,105)</b>	<b>1,124,615</b>
Increase (decrease) in net assets	93,136	55,398	148,534	(121,522)	(3,700)	(125,222)	16,200	39,512
Net assets, beginning of year	2,898,044	342,049	3,240,093	244,559	99,278	343,837	(639,850)	2,944,080
Net assets, end of year	<u>\$ 2,991,180</u>	<u>\$ 397,447</u>	<u>\$ 3,388,627</u>	<u>\$ 123,037</u>	<u>\$ 95,578</u>	<u>\$ 218,615</u>	<u>\$ (623,650)</u>	<u>\$ 2,983,592</u>