

Rural Neighborhoods, Inc. and Its Affiliates

**Consolidated Financial Statements and
(With Supplementary Information)
Independent Auditor's Report**

December 31, 2012 and 2011

Rural Neighborhoods, Inc. and Its Affiliates

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Independent Auditor's Report

To the Board of Directors
Rural Neighborhoods, Inc. and Its Affiliates

We have audited the accompanying consolidated financial statements of Rural Neighborhoods, Inc. and Its Affiliates (a nonprofit corporation), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Neighborhoods, Inc. and Its Affiliates as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Rural Neighborhoods, Inc. and Its Affiliates as of December 31, 2011, were audited by other auditors whose report dated June 13, 2012, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2012 supplementary information on pages 54 through 60 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying 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 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 consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole. The 2011 supplementary information on pages 54 through 60 was subjected to the auditing procedures applied in the 2011 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole.



Atlanta, Georgia
May 31, 2013

Rural Neighborhoods, Inc. and Its Affiliates
Consolidated Statements of Financial Position
December 31, 2012 and 2011

	<u>Assets</u>	
	2012	2011
Current assets		
Cash	\$ 5,185,023	\$ 5,254,682
Accounts receivable - tenants	67,756	64,406
Miscellaneous receivables	196,166	247,094
Due from affiliates	4,740	5,605
Notes receivable - affiliates	80,000	80,000
Prepaid expenses	429,637	487,744
Total current assets	5,963,322	6,139,531
Deposits and reserves		
Tenants' security deposits	474,188	432,090
Mortgage escrows	563,369	353,858
Replacement reserves	4,598,574	3,974,236
Debt service reserves	782,884	680,188
Operating reserves	940,106	937,656
Other deposits	77,412	81,239
Total deposits and reserves	7,436,533	6,459,267
Rental property		
Land	10,176,035	10,176,035
Land improvements	8,526,519	8,197,477
Building and improvements	133,723,515	129,765,619
Furniture and equipment	4,523,077	4,484,505
Construction in progress	744,824	4,462,138
Total rental property	157,693,970	157,085,774
Less accumulated depreciation	(26,342,158)	(21,911,630)
Net rental property	131,351,812	135,174,144
Other assets		
Deferred loan costs, net	547,648	582,173
Tax credit monitoring fees, net	622,818	679,548
Other assets	166,793	178,655
Total other assets	1,337,259	1,440,376
Total assets	\$ 146,088,926	\$ 149,213,318

(continued)

Rural Neighborhoods, Inc. and Its Affiliates

Consolidated Statements of Financial Position – Continued

December 31, 2012 and 2011

	2012	2011
Current liabilities		
Accounts payable	\$ 120,607	\$ 151,542
Accrued expenses	400,510	330,631
Accrued interest payable	311,258	222,147
Accrued investor services management fee	5,628	5,364
Due to affiliates	53,032	106,987
Construction costs payable	758,657	1,257,520
Current portion of mortgages payable	2,785,647	2,717,045
Total current liabilities	4,435,339	4,791,236
Deposits and prepayments		
Tenant security deposits	474,188	432,090
Prepaid rents	30,545	27,029
Total deposits and prepayments	504,733	459,119
Long-term liabilities		
Due to affiliates	158,237	112,699
Developer fee payable	2,326,411	2,735,963
Deferred revenue - loan forgiveness	1,909,728	954,864
Mortgages payable, net of current portion	70,556,300	72,743,459
Total long-term liabilities	74,950,676	76,546,985
Commitments and contingencies	-	-
Non-controlling interest in subsidiaries	22,462,642	23,496,434
Unrestricted net assets	43,598,836	43,919,544
Permanently restricted net assets	136,700	-
Total net assets	43,735,536	43,919,544
Total liabilities and net assets	\$ 146,088,926	\$ 149,213,318

See notes to consolidated financial statements

Rural Neighborhoods, Inc. and Its Affiliates

Consolidated Statement of Activities

Year ended December 31, 2012

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Rental revenue			
Potential rental revenue	\$ 9,833,017	\$ -	\$ 9,833,017
Less: Vacancies and concessions	<u>(1,114,323)</u>	<u>-</u>	<u>(1,114,323)</u>
Total rental revenue	<u>8,718,694</u>	<u>-</u>	<u>8,718,694</u>
Other revenue			
Application fees	37,722	-	37,722
Laundry and vending	228,761	-	228,761
Interest income	76,496	-	76,496
Tenant charges	196,021	-	196,021
Income from forgiveness of debt	722,919	-	722,919
Grant revenue	1,085,123	136,700	1,221,823
Miscellaneous revenue	<u>240,981</u>	<u>-</u>	<u>240,981</u>
Total other revenue	<u>2,588,023</u>	<u>136,700</u>	<u>2,724,723</u>
Expenses			
Operating and maintenance	2,169,321	-	2,169,321
Utilities	764,658	-	764,658
Project administration expenses	2,840,148	-	2,840,148
Management fees	221,385	-	221,385
Taxes and insurance	1,218,154	-	1,218,154
Bad debt expense	71,452	-	71,452
Interest on deferred developer fee	35,054	-	35,054
Interest on mortgages payable	<u>659,836</u>	<u>-</u>	<u>659,836</u>
Total expenses	<u>7,980,008</u>	<u>-</u>	<u>7,980,008</u>
Income from operations	<u>3,326,709</u>	<u>136,700</u>	<u>3,463,409</u>
Non-operating expenses			
Investor services management fee	5,728	-	5,728
Loss on project development	81,365	-	81,365
Depreciation expense	4,462,711	-	4,462,711
Amortization expense	<u>97,644</u>	<u>-</u>	<u>97,644</u>
Total non-operating expenses	<u>4,647,448</u>	<u>-</u>	<u>4,647,448</u>
Change in net assets before non-controlling interest	(1,320,739)	136,700	(1,184,039)
Non-controlling interest in earnings of subsidiaries	<u>1,000,031</u>	<u>-</u>	<u>1,000,031</u>
Change in net assets	<u>\$ (320,708)</u>	<u>\$ 136,700</u>	<u>\$ (184,008)</u>

See notes to consolidated financial statements

Rural Neighborhoods, Inc. and Its Affiliates

Consolidated Statement of Activities

Year ended December 31, 2011

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Rental revenue			
Potential rental revenue	\$ 9,342,252	\$ -	\$ 9,342,252
Less: Vacancies and concessions	<u>(1,327,728)</u>	<u>-</u>	<u>(1,327,728)</u>
Total rental revenue	<u>8,014,524</u>	<u>-</u>	<u>8,014,524</u>
Other revenue			
Application fees	37,350	-	37,350
Laundry and vending	212,058	-	212,058
Interest income	72,706	-	72,706
Tenant charges	184,809	-	184,809
Income from forgiveness of debt	722,919	-	722,919
Grant revenue	2,295,457	-	2,295,457
Miscellaneous revenue	<u>201,882</u>	<u>-</u>	<u>201,882</u>
Total other revenue	<u>3,727,181</u>	<u>-</u>	<u>3,727,181</u>
Expenses			
Operating and maintenance	2,063,755	-	2,063,755
Utilities	717,387	-	717,387
Project administration expenses	3,038,842	-	3,038,842
Management fees	140,071	-	140,071
Taxes and insurance	1,163,356	-	1,163,356
Bad debt expense	89,713	-	89,713
Interest on deferred developer fee	33,615	-	33,615
Interest on mortgages payable	<u>596,135</u>	<u>-</u>	<u>596,135</u>
Total expenses	<u>7,842,874</u>	<u>-</u>	<u>7,842,874</u>
Income from operations	<u>3,898,831</u>	<u>-</u>	<u>3,898,831</u>
Non-operating expenses			
Investor services management fee	5,364	-	5,364
Depreciation expense	4,299,724	-	4,299,724
Amortization expense	<u>87,239</u>	<u>-</u>	<u>87,239</u>
Total non-operating expenses	<u>4,392,327</u>	<u>-</u>	<u>4,392,327</u>
Change in net assets before non-controlling interest	(493,496)	-	(493,496)
Non-controlling interest in earnings of subsidiaries	<u>1,423,262</u>	<u>-</u>	<u>1,423,262</u>
Change in net assets	<u>\$ 929,766</u>	<u>\$ -</u>	<u>\$ 929,766</u>

See notes to consolidated financial statements

Rural Neighborhoods, Inc. and Its Affiliates
Consolidated Statements of Changes in Net Assets
Years ended December 31, 2012 and 2011

	Unrestricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balance, December 31, 2010	<u>\$ 42,989,778</u>	<u>\$ -</u>	<u>\$ 42,989,778</u>
Change in net assets	<u>929,766</u>	<u>-</u>	<u>929,766</u>
Balance, December 31, 2011	43,919,544	-	43,919,544
Change in net assets	<u>(320,708)</u>	<u>136,700</u>	<u>(184,008)</u>
Balance, December 31, 2012	<u><u>\$ 43,598,836</u></u>	<u><u>\$ 136,700</u></u>	<u><u>\$ 43,735,536</u></u>

See notes to consolidated financial statements

Rural Neighborhoods, Inc. and Its Affiliates

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (184,008)	\$ 929,766
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	4,462,711	4,299,724
Amortization	97,644	87,239
Non-controlling interest in earnings of subsidiaries	(1,000,031)	(1,423,262)
Deferred revenue - loan forgiveness	(722,919)	(722,919)
Changes in:		
Tenant accounts receivable	(3,350)	(27,619)
Miscellaneous receivables	50,928	(29,641)
Prepaid expenses	58,107	(25,977)
Tenant security deposits, net	-	(25,888)
Accounts payable	(30,435)	(14,834)
Accrued expenses	69,879	45,094
Accrued interest payable	89,111	78,230
Accrued investor services management fee	264	59
Due from affiliates	865	50,222
Due to affiliates	(7,955)	(385,540)
Other assets	11,862	(22,341)
Prepaid rents	3,516	9,477
Net cash provided by operating activities	<u>2,896,189</u>	<u>2,821,790</u>
Cash flows from investing activities		
Investments in rental property	(1,185,883)	(9,185,117)
Deposits to mortgage escrows, net	(209,511)	(38,923)
Deposits to replacement reserves, net	(624,338)	(323,034)
(Deposits to) withdrawals from debt service reserves, net	(102,696)	124,421
Deposits to operating reserves, net	(2,450)	(910,597)
Other deposits	3,827	(2,998)
Refund of (payment of) tax credit compliance monitoring fees	1,200	(157,548)
Net cash used in investing activities	<u>(2,119,851)</u>	<u>(10,493,796)</u>

(continued)

Rural Neighborhoods, Inc. and Its Affiliates
Consolidated Statements of Cash Flows – Continued
Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from financing activities		
Proceeds from mortgages and notes payable	\$ 557,471	\$ 12,038,812
Principal payments on mortgage notes	(998,245)	(1,172,812)
Payment of deferred loan costs	(7,589)	(86,358)
Payments on developer fee	(409,411)	(2,408,739)
Non-controlling interest capital distributions	(33,761)	(3,418)
Non-controlling interest capital contributions	-	1,300
Advances from affiliates	45,538	54,387
	(845,997)	8,423,172
Net (decrease) increase in cash	(69,659)	751,166
Cash, beginning	5,254,682	4,503,516
Cash, ending	\$ 5,185,023	\$ 5,254,682
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of \$9,738 and \$47,145, respectively)	\$ 605,779	\$ 556,570
Supplemental disclosures of noncash investing and financing activities:		
Investment in rental property	\$ (92,349)	\$ (179,728)
Accumulated amortization	-	3,823
Write-off of rental property	32,183	31,133
Write-off of accumulated depreciation	(32,183)	(31,133)
Construction in progress	-	(905,150)
Construction costs payable	138,990	602,832
Developer fee payable	(46,141)	483,273
Accounts receivable - other	-	63,613
Other assets	-	(156,314)
Accounts payable	(500)	38,314
Accrued interest	-	(5,050)
Due to affiliates	-	54,387
Forgiveness on TCEP loan	(1,527,783)	(1,527,783)
Deferred revenue - loan forgiveness	1,527,783	1,527,783
	\$ -	\$ -

See notes to consolidated financial statements

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Note 1 - Organization and Nature of Operations

Organization

Rural Neighborhoods, Inc. (RNI) is a Florida nonprofit corporation formed on December 23, 2004 for the purpose of planning, acquiring land, producing, developing and managing construction of projects and sites remaining in the Everglades Farmworker Village parcels and elsewhere. On December 31, 2004, Everglades Community Association, Inc. (ECA) transferred its unrestricted assets and liabilities to RNI to enable it to carry out the above tasks excluding any and all U.S. Department of Agriculture (USDA) restricted assets and liabilities associated with Everglades Farmworker Village.

Consolidation

The accompanying consolidated financial statements include the accounts of RNI and its affiliates (collectively, the Corporation). All significant intercompany accounts and transactions have been eliminated in this consolidation.

Investment in Subsidiaries

Beginning January 1, 2006, the Corporation adopted the Accounts Standards Codification Topic 958-810 (ASC Topic 958-810), which provides guidance as to when a general partner controls a limited partnership and is required to include the assets, liabilities and activities of a limited partnership in its financial statements.

Under ASC Topic 958-810, a general partner in a limited partnership or similar entity would be presumed to control that entity and would therefore be required to consolidate the entity unless the limited partners possessed certain rights, principally kick-out rights or significant participation rights. ASC Topic 958-810 applies to entities that are not considered variable interest entities. Management believes that ECA and Big Cypress Housing Corporation (BCHC) effectively have control of certain limited partnerships and these partnerships were consolidated in the separately issued financial statements of ECA and BCHC.

ECA is a Florida nonprofit corporation formed on July 21, 1982 for the purpose of planning, producing, developing and managing the construction of projects related to providing low cost housing to migrant and seasonal farm workers in Florida. ECA is a controlled corporation of RNI.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

ECA includes the following programs and services:

Everglades Farmworker Village (EFV) is a rental operation of ECA and consists of a USDA Rural Development 514/516 farm labor housing complex as described in USDA Handbook 2-3560, Section 2.6. The complex includes two phases, the Everglades Village and Metro Dade Farm Labor (MDFL) properties. Currently, there are 448 units rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560.

Phase IV (Phase IV) is an additional phase of EFV that is currently in predevelopment. When constructed, Phase IV will consist of 18 units that will be rented to income eligible migrant and seasonal workers as defined by the state of Florida and the USDA. The project was funded by the USDA and is subject to USDA oversight and regulations.

Phase V (Phase V) is an additional phase of EFV that is currently in predevelopment. When constructed, Phase V will consist of 14 units that will be rented to income eligible migrant and seasonal farm workers as defined by the State of Florida and the USDA. The project was funded by the USDA and is subject to USDA oversight and regulations.

Everglades Rural Rental Housing (ERRH) is Phase III of EFV and consists of a USDA Rural Development 515 housing complex as described in USDA Handbook 2-3560, Section 2.3. Currently, there are 15 units rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560.

Casa Cesar Chavez (CCC) is an additional phase of EFV and consists of three mobile home units and a 28 unit, 144 bed, four building, townhome complex designed to house unaccompanied single workers. The units are rented to income eligible migrant and seasonal farm workers as defined by the State of Florida. The mobile home units are located on land financed by the USDA but are not subject to 514/516 regulations. This project was not constructed with USDA funds and is not subject to USDA oversight or regulation.

Everglades Migrant Housing (EMH), formerly known as Phase III B, is an additional phase of EFV that consists of 30 units that are rented to income eligible migrant and seasonal farm workers as defined by the State of Florida and the USDA. The project is funded by the USDA and is subject to USDA oversight and regulations.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

ECA also includes the activities of the following subsidiaries:

Live Oak Villas, LLC (LOVI), a wholly owned subsidiary of ECA, is a .01 percent general partner of Live Oak Villas, Ltd. (LOVI-LTD). LOVI-LTD is the owner of a 104 unit, low-income housing tax credit project located in St. Lucie County, Florida. LOVI accounts for its investment in LOVI-LTD in accordance with ASC Topic 958-810.

Live Oak Villas II, LLC (LOVII), a wholly owned subsidiary of ECA, is a .01 percent general partner of Live Oak Villas II, Ltd. (LOVII-LTD). LOVII-LTD is the owner of an 80 unit, low-income housing tax credit project located in St. Lucie County, Florida. LOVII accounts for its investment in LOVII-LTD in accordance with ASC Topic 958-810.

Pollywog Creek, LLC (PC) is a wholly owned subsidiary of ECA formed to develop a 64 unit, low-income rental housing community in LaBelle, Florida. The project was designed in three phases. During 2012, phase III was incorporated as a separate legal entity, Pollywog Creek Senior Housing, Incorporated (PCSH). In 2012, the assets and liabilities associated with phase III were transferred from ECA to PCSH. Phases I and II are USDA Rural Development 514/516 farm labor housing complexes subject to USDA Rural Development farm labor housing requirements and the regulations of the Florida Housing Finance Corporation (FHFC) State Apartment Incentive Loan (SAIL) Program. Phases I and II were placed in service on May 6, 2011.

Shannon's Crossing, LLC (SCL) is a wholly owned subsidiary of ECA. SCL is the sole member of Beneficial Oaks at Shannon's Crossing, LLC, which is the .01 percent general partner of Oaks at Shannon's Crossing, LP (OSC). OSC is the owner of a 100 unit, low-income housing tax credit project with farm worker set-aside in Okeechobee, Florida. SCL accounts for its investment in OSC in accordance with ASC Topic 958-810.

Everglades Supportive Housing, LLC (ESH) is a Florida limited liability company owned by ECA. Prior to 2009, ESH was co-owned by ECA and RNI. ESH is the owner of a four-unit housing project for homeless families in Collier County, Florida. The project is Phase II of the Eden Gardens Apartments (EGA) project and was placed in service on September 28, 2009. The project was constructed on land financed by the USDA but is not subject to 514/516 regulations.

BCHC is a Florida nonprofit corporation formed on January 2, 2001 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers in Collier County, Florida. BCHC is a controlled corporation of RNI.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

BCHC includes the following programs and services:

Main Street Village (MSV) is a rental operation of BCHC and includes a 79 unit, USDA Rural Development 514/516 farm labor housing complex as described in the USDA Handbook 2-3560, Section 2.6. Units are rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560. A maximum of 63 units may receive rental assistance at any one time.

BCHC also includes the activities of the following subsidiaries:

Corkscrew Sanctuary, LLC (CSS), a wholly owned subsidiary of BCHC, is a 1.00 percent general partner of Eden Gardens Apartments, LP (EGALP), owner of a 51 unit, low-income housing tax credit project that is the first phase of the EGA project (Phase I). Phase I was placed in service on June 18, 2009. CSS accounts for its investment in EGALP in accordance with ASC Topic 958-810.

Eden Gardens II, LLC (EGII), a wholly owned subsidiary of BCHC, is the sole owner of a 37 unit, low-income housing project, for migrant and seasonal farm workers, that is the third phase of the EGA project (Phase III). Phase III was placed in service on September 28, 2009 and its units are rented to low-income farm workers subject to USDA governance and regulations of the FHFC SAIL Program.

Little Manatee Housing Corporation (LMHC) is a Florida nonprofit corporation formed on November 19, 1999 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers in Hillsborough County, Florida. LMHC is a controlled corporation of RNI.

LMHC includes the following programs and services:

Manatee Village (MV) is the rental operations of LMHC and consists of the following:

The Family Units - a 62-unit United States Department of Agriculture (USDA) Rural Development 514/516 farm labor housing complex as described in the USDA Handbook 2-3560, Section 2.6. Units are rented to eligible tenants as defined in the regulations. The USDA also provides rental assistance to tenants based on a formula described in Chapter 8 of the USDA Handbook 2-3560. A maximum of 51 units may receive rental assistance at any one time.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

The Dorm Units - a 16-unit Single Resident Occupancy rental complex consisting of 128 beds and one management unit. The administrative building associated with the Dorm Units contains the leasing office and maintenance operations space for the Project. The Dorm Units leases to unaccompanied, income-eligible migrant and seasonal farm workers as defined by Hillsborough County, the Federal Home Loan Bank of Atlanta and the Florida Department of Community Affairs.

Manatee Village Phase IV (MV4) - a 27-unit USDA Rural Development 514/516 farm labor housing complex subject to USDA Rural Development 514/516 farm labor housing requirements and the regulations of the FHFC SAIL Program. MV4 was placed in service on November 30, 2010.

Pollywog Creek Senior Housing, Incorporated (PCSH) is a Florida nonprofit corporation formed on March 22, 2012 for the purpose of providing elderly persons and handicapped persons with housing facilities and services. The project will be financed using a loan from the Department of Housing and Urban Development (HUD). The project was phase III of PC and is currently in pre-development.

Everglades Hammock, Inc. is a Florida nonprofit corporation formed on July 12, 1999 for the purpose of general operations, construction, expansion or any other activity connected with providing low cost housing to migrant and seasonal farm workers and other minorities in Florida City, Florida and rural Miami-Dade County, Florida. In 2008, Everglades Hammock, Inc. changed its name to Everglades Housing Trust, Incorporated (EHT). EHT is a controlled corporation of RNI.

EHT includes the activities of four subsidiaries:

Orchid Apartments, LLC (OA), a wholly owned subsidiary of EHT, is a 0.0067 percent general partner of Orchid Grove Apartments, Ltd. (OGA-LTD), owner of an 80 unit low-income housing project in Florida City, Florida. Construction of the project started in 2010; and the project was placed-in-service on December 29, 2010. Its units are rented in accordance with the rules and regulations of the FHFC tax credit exchange fund program. OA accounts for its investment in OGA-LTD in accordance with ASC Topic 958-810.

Cypress Cove, LLC (CC), a wholly owned subsidiary of EHT, is a 0.0067 percent general partner of Cypress Cove Apartments, Ltd. (CCA-LTD), owner of an 80 unit low-income housing project in Winterhaven, Florida. Construction of the project started in 2010; and the project was placed-in-service on December 23, 2010. Its units are rented in accordance with the rules and regulations of the FHFC tax credit exchange fund program. CC accounts for its investment in CCA-LTD in accordance with ASC Topic 958-810.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Oak Marsh, LLC (OM), a subsidiary wholly owned by EHT and was formed to help enable EHT to carry out its purpose. As of December 31, 2012 and 2011, OM had no activity to report.

Everglades Healthcare Residential, LLC (EHR), a subsidiary wholly owned by EHT, was formed to help enable EHT to carry out its purpose. As of December 31, 2012 and 2011, EHR had no activity to report.

Everglades Housing Group, Incorporated (EHG) is a Florida nonprofit corporation formed on December 23, 2004 to provide property management and supportive services to the low-income housing projects of RNI, ECA, BCHC, LMHC and their affiliated organizations. Prior to EHG's inception, RNI and ECA self-managed their related properties. The Board of Directors of RNI constitutes the members of EHG and as members, appoints EHG's Board of Directors.

Operating cash flows generating from USDA Rural Development financed properties are not available for distribution to the Corporation as owner of the real property. These operating cash flows must be utilized towards operations or reserves of the specific USDA Rural Development funded property.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Tenant Accounts Receivable

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Investment in Rental Property

Investments in rental property are recorded at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Construction in progress includes all pre-development and development costs and capitalized interest incurred on the construction of the

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

various projects. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related cost and accumulated depreciation. The resulting gains and losses are reflected on the consolidated statements of activities.

Depreciation expense for the years ended December 31, 2012 and 2011 was \$4,462,711 and \$4,299,724, respectively.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	40 years
Land improvements	15 - 20 years
Furniture, fixtures and equipment	5 - 10 years

Impairment of Long-Lived Assets

The Corporation reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No asset impairment losses were recognized during 2012 or 2011.

Deferred Fees and Amortization

Deferred loan fees of \$781,276 and \$773,087 at December 31, 2012 and 2011, respectively, are amortized over the term of the related loans using a method which approximates the effective yield method, which is required under accounting principles generally accepted in the United States of America. As of December 31, 2012 and 2011, accumulated amortization of the deferred loan fees was \$233,628 and \$190,914, respectively.

Tax credit monitoring fees of \$830,925 and \$832,125 at December 31, 2012 and 2011, respectively, are amortized using the straight-line method over the 15-year tax credit compliance period. As of December 31, 2012 and 2011, accumulated amortization of the tax credit monitoring fees was \$208,107 and \$152,577, respectively.

During the years ended December 31, 2012 and 2011, \$600 and \$3,823, respectively, of amortization was capitalized into the basis of various projects. For the years ended December 31, 2012 and 2011, amortization expense was \$97,644 and \$87,239, respectively. Estimated amortization expense for each of the five ensuing years is approximately \$97,747.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Rental Revenue

Rental revenue is recognized as the rents become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and its tenants are operating leases.

For the year ended December 31, 2012, total rental revenue was \$8,718,694 and is included in rental income on the accompanying consolidated statement of activities. This amount consisted of \$5,832,075 from tenants and \$2,886,619 from USDA rental assistance.

For the year ended December 31, 2011, total revenue was \$8,014,524 and is included in rental income on the accompanying consolidated statement of activities. This amount consisted of \$5,389,367 from tenants and \$2,625,157 from USDA rental assistance.

Miscellaneous Revenue

Miscellaneous revenues include amounts earned from miscellaneous tenant charges such as late fees, security deposit forfeitures and damages assessments, among others.

Grants

The Corporation receives grants from various governmental agencies. Generally, the Corporation recognizes income from these grants as revenue and support only to the extent that expenditures have been made for the purposes specified in the grant agreements. For the years ended December 31, 2012 and 2011, the Corporation received and recognized grant revenues of \$1,221,823 and \$2,295,457, respectively, which includes \$136,700 and \$- of permanently restricted capital grant funds received, respectively. These permanently restricted capital grant funds are to be used for the purposes specified in the grant agreement. The grant agreements contain various covenants and compliance requirements. As of December 31, 2012 and 2011, management believes they have fulfilled all covenants and compliance requirements.

Advertising Costs

The Corporation's policy is to expense advertising costs when incurred.

Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and personal days off. The Corporation's policy is to accrue the costs of compensated absences in the period that the employee becomes entitled to the compensated

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

absences. As of December 31, 2012 and 2011, accrued absences totaled \$68,367 and \$65,299, respectively, which are included in accrued expenses on the accompanying consolidated statements of financial position.

Income Taxes

The Corporation has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2012 and 2011. Due to its tax-exempt status, the Corporation is not subject to income taxes. The Corporation is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Corporation has no other tax positions which must be considered for disclosure. Income tax returns filed by the Corporation are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2009 remain open.

Tax Credit Exchange Funds

Tax credit exchange funds are accounted for as a government grant related to assets. Upon receipt, exchange funds are recorded as deferred liabilities and recognized as income over the life of the related assets.

Forgiveness of Tax Credit Exchange Loans

The Corporation recognizes forgiveness of tax credit exchange loans based on the specific terms of forgiveness set forth in the loan documents. The terms of the Corporation's tax credit exchange loan provide for forgiveness based on terms that are contingent and are not recognized until such contingencies are resolved. All amounts of the loan for which forgiveness is recognized are considered tax credit exchange funds and accounted for as a government grant related to assets.

Capitalization of Interest

In accordance with accounting principles generally accepted in the United States, interest incurred during the project development period is capitalized as part of the cost of development. For the years ended December 31, 2012 and 2011, the Corporation capitalized interest costs of \$9,738 and \$47,145, respectively.

Non-controlling Interest in Limited Partnerships

This amount represents the aggregate balance of limited partner and investor limited partner interests in the non-wholly owned limited partnerships that are included in the accompanying consolidated financial statements.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Fair Value of Financial Instruments

The Corporation's financial instruments consist of cash, amounts due from affiliates, short-term accounts payable, accrued expenses and debt. The carrying value of these financial instruments approximates fair value due to the short-term nature of these items.

Risk Management

The Corporation is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; material disasters; and product liability. The Corporation carries commercial insurance for risks of loss.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Presentation

Accounting principles generally accepted in the United States require the Corporation 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 Corporation has no temporarily restricted net assets. In addition, the management believes all expenditures incurred are program related expenditures and that there are no general and administrative or fundraising activities.

Reclassifications

Certain reclassifications were made to the prior year balances to conform to the current year presentation.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Note 3 - Restricted Reserves and Escrows

Tenant Escrows

Tenant escrows consisted of the following as of December 31, 2012 and 2011:

	<u>ECA</u>	<u>BCHC</u>	<u>LMHC</u>	<u>EHT</u>	<u>Total</u>
Balance, December 31, 2010	\$ 243,645	\$ 22,500	\$ 25,750	\$ 23,851	\$ 315,746
Deposits	71,242	7,900	14,831	102,882	196,855
Withdrawals	<u>(55,494)</u>	<u>(6,400)</u>	<u>(8,591)</u>	<u>(10,026)</u>	<u>(80,511)</u>
Balance, December 31, 2011	259,393	24,000	31,990	116,707	432,090
Deposits	112,433	10,071	19,355	11,566	153,425
Withdrawals	<u>(69,778)</u>	<u>(9,171)</u>	<u>(13,395)</u>	<u>(18,983)</u>	<u>(111,327)</u>
Balance, December 31, 2012	<u>\$ 302,048</u>	<u>\$ 24,900</u>	<u>\$ 37,950</u>	<u>\$ 109,290</u>	<u>\$ 474,188</u>

Mortgage Escrows

Various affiliates are required under loan and grant agreements to deposit funds for the payment of real estate taxes and property insurance into mortgage escrow accounts. As of December 31, 2012 and 2011, the mortgage escrows consisted of the following:

	<u>ECA</u>	<u>BCHC</u>	<u>LMHC</u>	<u>EHT</u>	<u>Total</u>
Balance, December 31, 2010	\$ 239,236	\$ 38,735	\$ 36,964	\$ -	\$ 314,935
Deposits	770,816	43,657	92,683	196,280	1,103,436
Interest earnings	885	-	85	144	1,114
Withdrawals	<u>(778,128)</u>	<u>(44,485)</u>	<u>(82,963)</u>	<u>(160,051)</u>	<u>(1,065,627)</u>
Balance, December 31, 2011	232,809	37,907	46,769	36,373	353,858
Deposits	781,949	38,032	73,482	264,940	1,158,403
Interest earnings	518	-	63	186	767
Withdrawals	<u>(634,996)</u>	<u>(44,867)</u>	<u>(70,923)</u>	<u>(198,873)</u>	<u>(949,659)</u>
Balance, December 31, 2012	<u>\$ 380,280</u>	<u>\$ 31,072</u>	<u>\$ 49,391</u>	<u>\$ 102,626</u>	<u>\$ 563,369</u>

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Replacement Reserves - USDA Projects

In accordance with the Loan and Grant Resolutions issued by USDA Rural Development, the Corporation is required to maintain replacement reserves as described in 7 CFR 3560.306.

The funding schedule is listed below:

	<u>Monthly</u>	<u>Annual</u>	<u>Fully Funded</u>
ECA			
Phase I (239 Units)	\$ 9,300	\$ 111,600	\$ 1,116,000
Phase II (143 Units)	18,105	217,260	2,172,600
MDFL Project (66 units)	3,500	42,000	420,000
ERRH	1,250	15,000	150,000
OSC	5,798	69,573	695,727
PC (Phase I) (a)	-	26,200	524,000
PC (Phase II) (a)	-	15,948	318,960
BCHC			
MSVP	2,084	25,000	250,000
EGALP	2,975	35,700	357,000
EGII	-	25,900	259,000
LMHC			
Phase I	2,084	25,000	250,000
Phase I Supplemental	292	3,500	35,000
Phase III	1,142	13,700	137,000
Phase IV	1,384	16,605	166,050

(a) No funding requirement as of December 31, 2011.

The replacement reserve accounts are supervised by the applicable area's Rural Development Office of the USDA (the Agency). Use of these funds is restricted to approved capital expenditures as outlined in USDA Handbook 2-3560, Section 4.13. An endorsement from an Agency representative along with certain members of the Board of Directors of the Corporation is required for the withdrawal of funds. Funds are held in interest bearing accounts at local financial institutions.

CCC Replacement Reserve

In accordance with the loan agreement with the FHFC, CCC established a replacement reserve, which is used to fund capital repairs, replacements and improvements to the project as the need arises. CCC makes monthly deposits

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

based on an annual amount of \$325 per unit. Release of funds from the replacement reserve requires the approval of the FHFC. Funds are held in an interest bearing account at the 1st National Bank of South Florida (1stNBSF).

LOVI-LTD Replacement Reserve

LOVI-LTD is required to fund a replacement reserve of \$200 per unit per year. The replacement reserve amount will be adjusted annually by the consumer price index (CPI), beginning January 1, 2010. Withdrawals from the replacement reserve require the approval of the administrative limited partner of LOVI-LTD.

LOVII-LTD Replacement Reserve

Upon commencement of the permanent financing phase, as defined, LOVII-LTD is required to fund a replacement reserve of \$250 per unit per year. The replacement reserve amount is required to be adjusted on January 1, 2013 and January 1 of each fifth year thereafter by the greater of the CPI or the amount required by the permanent lender. Withdrawals from the replacement reserve require the approval of the administrative limited partner of LOVII-LTD.

ESH Replacement Reserve

In accordance with the loan agreement with the FHFC, ESH established a replacement reserve, which is used to fund capital repairs, replacements and improvements to the project as the need arises. Withdrawals of funds from the replacement reserve require the approval of the FHFC. In October 2009, the ESH was required to begin making deposits based on an annual amount of \$200 per unit. The replacement reserve was established and a deposit of \$800 was made on January 13, 2010. Funds are held in an account at a local financial institution.

OGA-LTD Replacement Reserve

OGA-LTD is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs.

CCA-LTD Replacement Reserve

CCA-LTD is required to make monthly deposits to a reserve for replacements account for use in funding maintenance and replacement costs.

EHG Replacement Reserve

EHG maintains a board-designated reserve for the replacement of capital items such as vehicles, heavy equipment and laundry equipment.

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

As of December 31, 2012 and 2011, the replacement reserves consisted of the following:

	ECA	BCHC	LMHC	EHT	EHG	Total
Balance, December 31, 2010	\$ 2,953,881	\$ 339,093	\$ 229,900	\$ -	\$ 128,328	\$ 3,651,202
Deposits	512,357	131,616	58,620	32,016	-	734,609
Interest earnings	2,586	1,259	860	30	460	5,195
Withdrawals	<u>(346,638)</u>	<u>(65,032)</u>	<u>(5,100)</u>	<u>-</u>	<u>-</u>	<u>(416,770)</u>
Balance, December 31, 2011	3,122,186	406,936	284,280	32,046	128,788	3,974,236
Deposits	551,401	63,067	58,620	48,000	-	721,088
Interest earnings	2,621	968	784	89	339	4,801
Withdrawals	<u>(60,372)</u>	<u>(38,887)</u>	<u>(2,292)</u>	<u>-</u>	<u>-</u>	<u>(101,551)</u>
Balance, December 31, 2012	<u>\$ 3,615,836</u>	<u>\$ 432,084</u>	<u>\$ 341,392</u>	<u>\$ 80,135</u>	<u>\$ 129,127</u>	<u>\$ 4,598,574</u>

Debt Service Reserves

The Corporation established debt service reserves to pay principal and interest on loans as required under the loan agreements with the USDA and the FHFC. As of December 31, 2012 and 2011, the debt service reserves consisted of the following:

	ECA	BCHC	LMHC	Total
Balance, December 31, 2010	\$ 590,789	\$ 189,938	\$ 23,882	\$ 804,609
Deposits	765,288	161,440	232,288	1,159,016
Interest earnings	2,726	844	229	3,799
Withdrawals	<u>(723,717)</u>	<u>(331,229)</u>	<u>(232,290)</u>	<u>(1,287,236)</u>
Balance, December 31, 2011	635,086	20,993	24,109	680,188
Deposits	798,963	186,360	223,148	1,208,471
Interest earnings	1,977	211	180	2,368
Withdrawals	<u>(757,389)</u>	<u>(123,918)</u>	<u>(226,836)</u>	<u>(1,108,143)</u>
Balance, December 31, 2012	<u>\$ 678,637</u>	<u>\$ 83,646</u>	<u>\$ 20,601</u>	<u>\$ 782,884</u>

Operating Reserves

OSC was required to establish and maintain an initial operating reserve of \$25,000. This reserve is being held until OSC sets up reserves required by the loan agreement with the USDA. The funds are held in an interest bearing account at the 1stNBSF.

CCA-LTD and OGA-LTD maintain operating reserves. The funds are held in interest bearing accounts at local financial institutions.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

As of December 31, 2012 and 2011, the operating reserve consisted of the following:

	<u>ECA</u>	<u>LMHC</u>	<u>EHT</u>	<u>Total</u>
Balance, December 31, 2010	\$ 27,058	\$ 1	\$ -	\$ 27,059
Withdrawals	-	(1)	-	(1)
Deposits	-	-	910,054	910,054
Interest earnings	<u>56</u>	<u>-</u>	<u>488</u>	<u>544</u>
Balance, December 31, 2011	27,114	-	910,542	937,656
Interest earnings	<u>38</u>	<u>-</u>	<u>2,412</u>	<u>2,450</u>
Balance, December 31, 2012	<u>\$ 27,152</u>	<u>\$ -</u>	<u>\$ 912,954</u>	<u>\$ 940,106</u>

EGALP is required to establish and maintain an initial operating reserve of no less than \$50,000. This reserve will be held until the property sets up reserves required by the loan agreement with the USDA. Funds will be held in an interest bearing account. As of December 31, 2012 and 2011, the reserve had not been funded (see also Note 12).

Note 4 - Related Party Transactions

Property Management Fees

EHG is the management company that oversees a majority of the operations of the Corporation (see also Note 9). Generally, EHG receives a fee per occupied unit per month, from tenant rents for their role as property manager, which is based on the approved USDA per occupied unit per month amount for Florida properties. For the years ended December 31, 2012 and 2011, the monthly per occupied unit fee was generally \$50.00 and \$50.00, respectively. Property management fees earned by EHG during the years ended December 31, 2012 and 2011 were \$522,033 and \$491,352, respectively, which have been eliminated on the accompanying consolidating statements of activities.

EHG also serves as the primary employer of the staff of the Corporation and provides administrative services on a cost reimbursement basis. Reimbursable expenses that remain payable to EHG as of December 31, 2012 and 2011 have been eliminated on the accompanying consolidating statements of financial position.

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Development Fees

Live Oak Villas II, Ltd.

LOVII-LTD entered into a co-development agreement with Pinnacle Housing Group, LLC (PHG), a related party until 2009, and RNI. The development fee incurred and payable under this agreement is apportioned four-fifths to PHG and one-fifth to RNI.

The agreement provides for a developer fee of \$1,731,614 for services in connection with the development of the project and supervision of construction. The developer fee is payable out of development proceeds and cash flows from operations, as defined. As of December 31, 2012 and 2011, the full developer fee has been capitalized as part of the project cost and \$194,563 and \$194,563, respectively, remained payable and is included in developer fee payable on the accompanying consolidating statements of financial position.

Pollywog Creek, LLC

In accordance with the credit underwriting report with the FHFC, RNI, in its capacity as developer, is entitled to a developer fee of \$1,073,260 for services in connection with the development of the project and supervision of construction. The development fee was capitalized into the cost of the building and is payable out of development proceeds and cash flows from operations, as defined. As of December 31, 2011, the full developer fee had been capitalized and paid in full.

Everglades Migrant Housing

In accordance with the credit underwriting report with the FHFC, RNI, in its capacity as developer, is entitled to a developer fee of \$555,953 for services in connection with the development of the project and supervision of construction. The developer fee was capitalized into the cost of the building and is payable out of development proceeds and cash flows from operations, as defined. As of December 31, 2012 and 2011, the entire fee had been incurred and \$- and \$307,368 remained payable, respectively, and is included in developer fee payable on the accompanying consolidated statement of financial position.

Oaks at Shannon's Crossing, LP

OSC entered into a development agreement with RLI Beneficial Development 5, LLC (RLI Beneficial) and RNI. The development fee incurred and payable under this agreement is apportioned two-thirds to RLI Beneficial and one-third to RNI.

The agreement provides for a development fee of \$1,798,040 for services in connection with the development of the project and supervision of construction.

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

As of December 31, 2012 and 2011, the full development fee has been capitalized as part of the project cost and \$1,125,298 and \$1,079,298, respectively, remained payable and was deferred and is included developer fee payable on the accompanying consolidating statements of financial position.

Under the terms of the partnership agreement, the deferred development fee shall bear interest from the month of construction completion until the date of payment at the long-term Applicable Federal Rate (AFR). The deferred development fee is payable from available cash flows, as defined, but no later than January 1, 2020. As of December 31, 2012 and 2011, accrued and unpaid interest on the deferred development fee was \$204,683 and \$152,102, respectively, and is included in developer fee payable on the accompanying consolidating statements of financial position.

Eden Gardens Apartments Project

The Corporation entered into development agreements with JR Beneficial Development, LLC (JR Beneficial) and RNI. All development fees incurred and payable under these agreements are apportioned two-thirds to JR Beneficial and one-third to RNI.

The agreements provide for a development fee of \$2,171,765 for services in connection with the development of the various phases of the EGA project and supervision of construction. As of December 31, 2012 and 2011, the full development fee, had been incurred and capitalized into the cost of the three phases. As of December 31, 2012 and 2011, \$1,611,327 and \$1,611,327, respectively, remained payable and is included in developer fee payable on the accompanying consolidating statements of financial position.

Manatee Village – Phase IV

In accordance with the credit underwriting report with the FHFC, RNI, in its capacity as developer, is entitled to a developer fee of \$612,073 for its services in connection with the development of Phase IV. During 2010, RNI elected to defer \$277,133 of the development fee, reducing the total fee to \$334,940. As of December 31, 2011, the full \$334,940 had been incurred and capitalized into the cost of the building. During 2011, the remaining balance of \$131,163 was paid.

Orchid Grove Apartments, Ltd.

OGA-LTD entered into a co-development fee agreement with PHG and RNI. The total development fee was estimated to be \$1,881,947 or 16 percent of development costs, whichever is greater. The development fee incurred and payable under this agreement is apportioned four-fifths to PHG and one-fifth to RNI.

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

The total development fee is \$1,960,272 and is payable out of development proceeds and cash flow from operations, as defined. As of December 31, 2012 and 2011, the full amount of \$1,960,272 has been earned and \$- and \$22,970, respectively, remained payable and is included in developer fee payable on the accompanying consolidating statements of financial position.

Cypress Cove Apartments, Ltd.

CCA-LTD entered into a co-development services agreement with PHG and RNI. The total development fee was estimated to be \$1,704,907 or 16 percent of development costs, whichever is greater. The development fee incurred and payable under this agreement is apportioned four-fifths to PHG and one-fifth to RNI.

The total development fee is \$1,836,169 and is payable out of development proceeds and cash flow from operations, as defined. As of December 31, 2012 and 2011, the full amount of \$1,836,169 has been earned and \$210,000 and \$354,936, respectively, remained payable and is included in developer fee payable on the accompanying consolidating statements of financial position.

The portion of development fees earned by RNI and the related balances, have been eliminated on the accompanying consolidating financial statements.

Other Related Party Fees

Asset Management Fees

Pursuant to the partnership agreements, LOVI-LTD and LOVII-LTD are required to pay their respective investor limited partners an annual asset management fee for their services in reviewing the informational reports, financial statements and tax returns of the partnerships. The fees are payable to the extent of available cash flow, as defined. Unpaid fees accrue without interest. During each of the years ended December 31, 2012 and 2011, asset management fees of \$5,200 were incurred and paid by LOVI-LTD. During the years ended December 31, 2012 and 2011, asset management fees of \$3,104 and \$3,018, respectively, were incurred and paid by LOVII-LTD.

Pursuant to the partnership agreement, commencing in 2009, EGALP is required to pay its investor limited partner an annual asset management fee of \$3,315 for property management oversight, tax credit compliance monitoring and related services. The fee is payable to the extent of available cash flow, as defined. The fee shall increase 3 percent annually and unpaid fees accrue without interest. For the years ended December 31, 2012 and 2011, asset management fees of \$3,622 and \$3,517, respectively, were incurred and paid.

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Investor Services Fee

Pursuant to the partnership agreement, OSC is required to pay the investment limited partner an annual, cumulative fee of \$5,000 per year, commencing January 1, 2008. The investor services fee shall be payable annually by OSC out of cash flow, as defined. The fee shall increase 3 percent annually, commencing January 1, 2009. For the years ended December 31, 2012 and 2011, investor services fees of \$5,728 and \$5,364, respectively, were incurred. As of December 31, 2012 and 2011, investor services fees of \$5,628 and \$5,364 remained payable, respectively.

Incentive Partnership Management Fee

For management services related to CCA-LTD, CC and the special limited partner are to be paid an annual non-cumulative incentive partnership management fee. The fee is split between the partners, with 55.56 percent payable to CC and 44.44 percent payable to the special limited partner. The fee is payable to the extent of available cash flow. During the years ended December 31, 2012 and 2011, no incentive partnership management fees were earned by CC and the special limited partner.

For management services related to OGA-LTD, OA and the special limited partner are to be paid an annual non-cumulative incentive partnership management fee. The fee is split between the partners, with 55.56 percent payable to OA and 44.44 percent payable to the special limited partner. The fee is payable to the extent of available cash flow. During the years ended December 31, 2012 and 2011, OA earned \$83,340 and \$- in incentive partnership management fees, respectively, which has been eliminated between OGA-LTD and OA and is not included on the accompanying consolidating statements of activities. During the years ended December 31, 2012 and 2011, OGA-LTD's special limited partner, an unrelated party to the Corporation, earned \$66,660 and \$- in incentive partnership management fees, respectively. These fees were paid in full as of December 31, 2012 and 2011.

EHG charges OA a supervisory accounting fee for accounting, management and supervisory services provided related to OGA-LTD. For the years ended December 31, 2012 and 2011, supervisory accounting fees of \$82,200 and \$- were earned by EHG, which have been eliminated on the accompanying consolidating statements of activities. As of December 31, 2012 and 2011, supervisory accounting fees of \$82,200 and \$-, respectively, were due to EHG from OA, which have been eliminated on the accompanying consolidating statements of financial position. No formal executed agreement exists in regards

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Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

to the supervisory accounting fee. EHG assesses the fee annually based upon an estimate of services performed and costs incurred related to accounting, management and supervisory services provided directly to OA.

Lease-Up Fee

Prior to the achievement of stabilization, as defined, the CCA-LTD shall pay a lease-up fee to its managing general partner for services rendered in connection with supervising the lease-up of the apartment complex. The fee shall be incurred to the extent the CCA-LTD generates net cash flow, as defined. For the years ended December 31, 2012 and 2011, no lease-up fees were incurred.

Prior to the achievement of stabilization, as defined, the OGA-LTD shall pay a lease-up fee to its managing general partner for services rendered in connection with supervising the lease-up of the apartment complex. The fee shall be incurred to the extent the OGA-LTD generates net cash flow, as defined. For the years ended December 31, 2012 and 2011, no lease-up fees were incurred.

Due to/from Affiliates

During 2012 and 2011, the Reserve at Eden Gardens Association, Inc. (REG), an affiliate, incurred expenses for which it expects to be reimbursed by EGALP, ESH, and EGII. The expenses include administrative, payroll, and other costs of the phases. As of December 31, 2012 and 2011, the balance owed to REG was \$53,032 and \$106,987, respectively, which included \$30,000 and \$50,000, respectively, owed to REG for the reimbursement of a debt service payment made to the USDA on behalf of EGALP. These balances are included in due to affiliates on the accompanying consolidating statements of financial position.

During 2011, MSV repaid advances for expenses incurred in connection with the remodeling of its business office. The expenses were paid for on behalf of MSV by EFV during 2010.

During 2011, EHG paid for repairs and maintenance expenses in the amount of \$2,195 on behalf of OSC, for which it expects to be reimbursed. As of December 31, 2011, the amount of expenses still owed to EHG was \$2,195, which has been eliminated on the accompanying consolidating statement of financial position. This amount was paid in full as of December 31, 2012.

During 2012, EFV made payments for remodeling expenses, administrative and maintenance expenses on behalf of RNI. As of December 31, 2012, the amount of expenses still owed to EFV was \$1,010, which has been eliminated on the accompanying consolidating statement of financial position.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

During 2011, the EGALP incurred legal costs related to litigation with WaterMark Construction. The total amount of the costs incurred as of December 31, 2012 and 2011 was \$163,824 and \$156,314, respectively, and has been recorded as an asset on the accompanying consolidating statements of financial position. JR Beneficial has paid a portion of these costs and expects to be reimbursed by EGALP. As of December 31, 2012 and 2011, the outstanding amount owed to JR Beneficial was \$84,748 and \$54,387, respectively, which is included in due to affiliates on the accompanying consolidated statements of financial position.

RNI has balances due from affiliates for the payment of various administrative expenses. The balances between RNI and its affiliates have been eliminated in the accompanying supplemental consolidating financial statements and consist of the following:

During 2011, LOVI-LTD repaid advances for administrative expenses incurred. The expenses were paid for on behalf of LOVI-LTD by RNI during 2010.

During 2011, PC incurred administrative expenses that were paid by RNI. As of December 31, 2012 and 2011, the amount of expenses still owed to RNI was \$- and \$6,137, respectively.

BCHC received advances from RNI to pay for general operating expenses. As of December 31, 2012 and 2011, the total amount of advances owed to RNI was \$49,200 and \$86,200, respectively.

EGALP received advances from RNI to pay for cost overruns in connection with the development of Phase I and to pay for general operating expenses. As of December 31, 2012 and 2011, the total amount of advances owed to RNI was \$73,489 and \$58,312, respectively.

During 2011, RNI advanced funds to LMHC for operating expenses. These advances are non-interest bearing and are to be repaid as cash flows permit. As of December 31, 2011, the balance was \$36,952. During 2012, RNI forgave the outstanding advances.

During 2012 and 2011, MV4 received advances from RNI. These amounts are non-interest bearing and have no fixed repayment date. As of December 31, 2012 and 2011, the amount of advances still owed to RNI was \$30,003 and \$24,574, respectively.

During 2012, RNI paid for costs on behalf of EMH. As of December 31, 2012, the amount of expenses still owed to RNI was \$3,715.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

During 2012, RNI paid for costs on behalf of LOVI-LTD. As of December 31, 2012, the amount of expenses still owed to RNI was \$9,972.

During 2011, RNI paid for costs on behalf of CCA-LTD. As of December 31, 2011, the amount of expenses still owed to RNI was \$7,671. CCA-LTD repaid the advances during 2012.

During 2011, RNI paid for costs on behalf of OGA-LTD. As of December 31, 2011, the amount of expenses still owed to RNI was \$7,671. OGA-LTD repaid the advances during 2012.

Notes Receivable - Affiliates

Notes receivable from affiliates includes obligations payable to RNI under various note and loan agreements. The balances between RNI and its affiliates that are included in the consolidated financial statements have been eliminated on the accompanying consolidating financial statements.

On December 31, 2009, RNI entered into a promissory note with REG for \$175,000. The note is non-interest bearing and due on demand. As of December 31, 2012 and 2011, the balance of the note was \$80,000 and \$80,000, respectively and is included in the consolidated statements of financial position.

On December 31, 2008, RNI entered into a promissory note with EHG for \$250,000. The advances are used for operating expenses and may be drawn and repaid from time to time, provided that the unpaid balance does not exceed \$250,000. The note is non-interest bearing and is due on demand. As of December 31, 2012 and 2011, the outstanding balance was \$80,000 and \$40,000, respectively.

On January 1, 2008, RNI entered into a promissory note with ECA for advances up to \$350,000 to fund the development costs of CCC. The note is non-interest bearing and due on demand. As of December 31, 2012 and 2011, the note balance was \$310,000 and \$342,500, respectively.

On June 1, 2008, RNI entered into a promissory note with ECA for \$412,374 to fund the operating costs of CCC. The note is non-interest bearing and is due on demand. As of December 31, 2012 and 2011, the note balance was \$412,374 and \$412,374, respectively.

On November 16, 2007, RNI entered into a \$341,000 promissory note with PC for the purchase of land for development. The note bears interest at a rate of 6.75 percent per annum and requires no annual principal or interest payments. Any unpaid principal and interest is payable in full at maturity on November 16,

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

2012. On January 1, 2011, RNI extended the maturity date to December 31, 2012 and reduced the interest rate to 0 percent. During 2012, phase III of PC was incorporated as a separate legal entity and the liability balance was transferred to PCSH. As of December 31, 2011, the note balance was \$341,000 and accrued interest was \$26,108. On January 1, 2013, RNI extended the maturity date to December 31, 2013. As of December 31, 2012, the note balance was \$341,000 and accrued interest was \$26,108.

On December 31, 2010, RNI entered into a promissory note with PC for advances of up to \$83,910. The note is non-interest bearing and payable upon disposition of the PC project. During 2012, phase III of PC was incorporated as a separate legal entity and the liability balance was transferred to PCSH. As of December 31, 2012 and 2011, the note balance was \$83,910 and \$83,910, respectively.

On December 31, 2010, RNI entered into a promissory note with PC for advances of up to \$10,000. The note is non-interest bearing and payable upon disposition of the PC project. During 2011, the loan was repaid in full.

On June 8, 2006, RNI entered into a \$500,000 promissory note with OSC. The proceeds were received by RNI through the Affordable Housing Program of the Federal Home Loan Bank of Pittsburgh. The note is non-interest bearing and payable in full at maturity on May 1, 2039. As of December 31, 2012 and 2011, the note balance was \$500,000 and \$500,000, respectively.

On December 1, 2007, RNI entered into a promissory note with ESH for advances of up to \$240,000 to finance the development of ESH. The note had a fixed interest rate of 11.00 percent per annum and was fully repaid during 2009. During 2011, RNI elected to forgive accrued interest of \$5,500 and accordingly, the interest receivable balance was written-off by RNI.

On December 31, 2010, RNI entered into a promissory note with ESH for advances of up to \$18,000. The note is non-interest bearing and payable upon disposition of the ESH project. As of December 31, 2012 and 2011, the note balance was \$18,000 and \$18,000, respectively.

On August 24, 2007, RNI entered into a promissory note with ECA for advances of up to \$300,000. The note is non-interest bearing and payable on demand. As of December 31, 2012 and 2011 \$140,000 and \$115,000, respectively, had been used by ECA to fund various predevelopment costs. As of December 31, 2012, an additional \$60,000 and \$20,000 under this note had been used by EMH to fund development costs, respectively. As of December 31, 2012 and 2011, an additional \$40,000 and \$- under this note had been used by Phase V to fund development costs, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

On December 31, 2010, RNI entered into a promissory note with ECA for advances of up to \$130,000 to fund the development costs of Phase IV. The note is non-interest bearing and payable upon disposition of the Phase IV project. As of December 31, 2012 and 2011, the note balance was \$50,000 and \$180,000, respectively.

On December 27, 2011, phase I of PC entered into a promissory note with RNI for advances of up to \$57,500. The note is non-interest bearing and payable upon disposition of the PC project. As of December 31, 2012 and 2011, the note balance was \$57,500 and \$57,500, respectively.

On December 27, 2011, phase II of PC entered into a promissory note with RNI for advances of up to \$48,000. The note is non-interest bearing and payable upon disposition of the PC project. As of December 31, 2012 and 2011, the note balance \$48,000 and \$48,000, respectively.

On December 31, 2011, PC entered into a promissory note with RNI for advances of up to \$150,000. The note is non-interest bearing and payable upon disposition of the PC project. During 2012, phase III of PC was incorporated as a separate legal entity and the liability balance was transferred to PCSH. As of December 31, 2012 and 2011, the note balance was \$143,000 and \$13,000, respectively.

On December 31, 2012, ESH entered into a promissory note with RNI for advances of up to \$7,500. The note is non-interest bearing and requires no annual payments. The note shall be due and payable upon sale or transfer of the ESH project. As of December 31, 2012, the balance of the note was \$7,500.

On November 3, 2004, LOVI-LTD entered into a promissory note with ECA in an amount not to exceed \$75,000. Subsequently, the Board of Directors transferred the note to RNI through an assignment. The note is non-interest bearing and payable in full at maturity on November 3, 2034. As of December 31, 2012 and 2011, the note balance was \$75,000 and \$75,000, respectively.

On November 19, 2004, LOV1-LTD entered into a promissory note with ECA in an amount not to exceed \$1,500,000. Subsequently, the Board of Directors transferred the note to RNI through an assignment. The note is non-interest bearing and payable in full at maturity on November 19, 2034. As of December 31, 2012 and 2011, the note balance was \$1,500,000 and \$1,500,000, respectively.

On August 30, 2006, RNI provided a loan of up to \$400,000 for the construction of Phase I of EGALP. The proceeds were received by RNI through the U.S. Department of Housing and Urban Development. The loan bears interest at a

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

rate of 1.00 percent per annum and matures August 30, 2046. RNI has been granted a security interest in the real property of the project. For each of the years ended December 31, 2012 and 2011, interest incurred and paid was \$2,713. As of December 31, 2012 and 2011, the balance of the loan was \$271,306 and \$271,306, respectively.

On February 1, 2008, RNI entered into a promissory note with EGALP for an amount not to exceed \$200,000. The note is non-interest bearing and has no fixed repayment date. As of December 31, 2012 and 2011, the balance was \$50,000 and \$50,000, respectively.

On December 31, 2009, RNI entered into a promissory note with EGII for an amount not to exceed \$40,000. The note is non-interest bearing and requires no annual payments. The note shall be due and payable upon sale or transfer of the property. As of December 31, 2012 and 2011, the balance was \$40,000 and \$40,000, respectively.

In prior years, RNI advanced \$89,236 of initial operating capital to the Dorm Units at Manatee Village. These advances are non-interest bearing and are to be repaid as cash flows permit. As of December 31, 2012 and 2011, the balance was \$89,236 and \$89,236, respectively.

On January 1, 2008, RNI entered into an unsecured promissory note with LMHC for \$150,000. The note is non-interest bearing and is payable upon the sale or transfer of the Project. No annual or other payment in any amount is required prior to property disposition. During 2011, the balance was paid in full.

On December 31, 2010, RNI entered into an unsecured promissory note with LMHC for \$40,000. \$26,763 was used to fund the initial operations of Phase IV and \$13,237 was used by LMHC to fund various other costs. The note is non-interest bearing and is payable upon the sale or transfer of the Project. No annual or other payment in any amount is required prior to property disposition. During 2011, the balance was paid in full.

During 2011, LMHC entered into an unsecured promissory note with RNI for \$58,200 to provide funds for the initial operating capital of the Phase IV. The note is non-interest bearing and repayment is subject to the terms and conditions outlined in USDA Handbook 2-3560, Section 4.9. As of December 31, 2012 and 2011, the balance was \$58,200 and \$58,200, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Notes receivable from affiliates also includes the following obligations payable to ECA:

On August 30, 2006, ECA entered into a promissory note with EGALP for \$400,000 for the construction of a low-income housing project. The proceeds were received by ECA through the Affordable Housing Program of the Federal Home Loan Bank of Atlanta. The note bears interest at a rate of 1.0 percent per annum and matures August 30, 2046. As of December 31, 2012 and 2011, the balance of the note outstanding was \$400,000 and \$400,000, respectively. The balances have been eliminated in the accompanying consolidating statements of financial position. For the years ended December 31, 2012 and 2011, interest of \$4,000 and \$4,000, respectively, was incurred. The balances have been eliminated in the accompanying consolidating statements of activities.

On March 10, 2008, ECA entered into a promissory note with EGII for \$400,000 for the construction of a low-income housing project. The proceeds were received by ECA through the Affordable Housing Program of the Federal Home Loan Bank of Atlanta. The note is non-interest bearing and matures May 1, 2048, at which time the principal amount of the loan will be automatically forgiven if certain prescribed conditions are met. As of December 31, 2012 and 2011, the balance of the note was \$400,000 and \$400,000 respectively. The balances have been eliminated on the accompanying consolidating statements of financial position.

On December 31, 2010, EGII entered into a promissory note with ECA for \$40,000. The note is non-interest bearing and requires no annual payments. The note shall be due and payable upon sale or transfer of Phase III of the EGA project. As of December 31, 2012 and 2011, the balance was \$40,000 and \$40,000, respectively. The balances have been eliminated on the accompanying consolidating statements of financial position.

Note 5 - Promissory and Mortgage Notes Payable

Notes and mortgages payable under RNI are as follows:

On November 19, 2004, ECA entered into a \$1,500,000 loan agreement with the FHFC to provide funds for construction of the Live Oak Villas project. Subsequently, the Board of Directors transferred the note to RNI through an assignment. The loan is non-interest bearing and principal is forgiven on a prorated basis over the ten-year term of the loan. The loan forgiveness requires that the project continue to provide farm worker housing through maturity on November 19, 2014. Debt forgiveness of \$150,000 was reflected during each of the years ended December 31, 2012 and 2011 and is included in income from

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

forgiveness of debt on the accompanying consolidated statements of activities. As of December 31, 2012 and 2011, the loan balance was \$281,250 and \$431,250, respectively.

Notes and mortgages payable under ECA are as follows:

On January 26, 1995, ECA entered into a loan agreement and a series of grants with the USDA for \$20,211,190. The USDA loan of \$6,389,219 and USDA grants of \$13,821,971 were combined to provide construction funds for 239 of the rental units and the administrative complex for the EFV project. The loan is repayable in annual installments of \$240,718 due on January 1 of each year. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2032. As of December 31, 2012 and 2011, the loan balance was \$3,334,020 and \$3,538,865, respectively.

On March 26, 1996, ECA entered into a loan agreement and a series of grants with the USDA for \$15,924,299. The loan of \$1,450,000 and grants of \$14,474,299 were combined to provide construction funds for 143 of the rental units along with a neighborhood retail center and a Miami-Dade County public park. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2034. Principal and interest are payable in annual installments of \$54,630. As of December 31, 2012 and 2011, the loan balance was \$739,648 and \$785,367, respectively.

In August 2012, ECA entered into a loan agreement with the USDA for \$1,500,000 to provide construction funds for the 18 units of EFV Phase IV. The loan bears interest at a rate of 1.00 percent per annum and matures August 10, 2045. The loan requires annual interest payments beginning January 1, 2013 through January 1, 2014. Principal and interest are due in annual installments of \$56,514 beginning January 1, 2015, with any unpaid principal and interest due at maturity. As of December 31, 2012, the loan balance was \$326,882.

In May 2004, ECA acquired the MDFL project from Miami-Dade County, Florida. The project consists of 66 units located on a parcel of land adjacent to EFV. ECA managed the property for the Miami-Dade Housing Agency from 1995 to the time of acquisition. Miami-Dade County borrowed funds from the USDA to construct the project. The initial note amount was \$3,834,370. The loan bears interest at a rate of 1.00 percent per annum and matures September 1, 2013. Principal and interest are payable in annual installments of \$144,463. At the time of the acquisition, the balance due on the note was \$1,378,430. This outstanding balance became the acquisition price. As of December 31, 2012 and 2011, the loan balance was \$143,071 and \$284,670, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

On December 1, 2006, ECA entered into a \$1,500,000 loan agreement with the USDA to provide construction funds for the 15 units of ERRH. On November 1, 2008, the loan agreement was amended to increase the loan to \$1,614,309. The loan bears interest at a rate of 6.00 percent per annum with a 50-year amortization. The loan agreement requires monthly principal and interest payments of \$8,553 until maturity on December 1, 2036. Under an interest credit agreement with the USDA, ECA receives a monthly interest credit of \$5,027 towards the monthly principal and interest payment, resulting in a net monthly payment of \$3,526 due from ECA. As of December 31, 2012 and 2011, the balance was \$1,587,668 and \$1,594,806, respectively.

On December 14, 2004, ECA entered into a \$1,250,000 loan agreement with FHFC to provide construction funds for the 28 units of CCC. The loan is non-interest bearing and requires annual payments of \$41,667 into a debt service fund until maturity on December 30, 2020. ECA may extend the maturity date, at the sole discretion of the FHFC, in additional five-year increments based on continued occupancy by farm workers, not to exceed a total term of 30 years. As of December 31, 2012 and 2011, the loan balance was \$1,250,000 and \$1,250,000, respectively.

On January 27, 2010, ECA entered into a \$2,000,000 loan agreement with the USDA to provide construction funds for the 30 units of EMH. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2043. The loan agreement requires annual interest payments beginning January 1, 2011 through January 1, 2012. Principal and interest are payable in annual installments of \$75,351 beginning January 1, 2013 with any unpaid principal and interest due at maturity. The loan is secured by the underlying rental property. As of December 31, 2012 and 2011, the balance was \$1,999,282 and \$2,000,000, respectively.

On January 29, 2010, ECA entered into a \$1,030,665 loan agreement with the FHFC to provide construction funds for the 30 units of EMH. The loan is non-interest bearing and matures January 29, 2030, at which time the principal amount of the loan will be automatically forgiven if certain prescribed conditions are met. The loan is secured by the underlying rental property. As of December 31, 2012 and 2011, the balance was \$1,030,655 and \$800,066, respectively.

On May 1, 2004, LOVI-LTD entered into a first mortgage agreement with Citibank Federal Savings Bank with the principal not to exceed \$2,000,000. On April 30, 2006, the conversion date, a pay-down of \$286,731 was made to reduce the principal amount of the loan to \$2,000,000. During 2009, the note was transferred and is now held with Berkadia Commercial Mortgage (Berkadia). The loan bears interest at a rate of 7.15 percent per annum and is amortized over 30

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

years. Principal and interest are payable in monthly installments of \$13,508 until maturity on May 1, 2021. As of December 31, 2012 and 2011, the loan balance was \$1,838,234 and \$1,867,743, respectively.

On February 29, 2009, LOVII-LTD entered into a mortgage agreement with Berkadia for \$2,095,000. The loan bears interest at a rate of 6.53 percent per annum and matures February 25, 2024. Monthly principal and interest payments of \$13,283 are required until maturity, at which time any unpaid principal and accrued interest are payable in full. As of December 31, 2012 and 2011, the loan balance was \$1,999,287 and \$2,027,137, respectively.

On November 25, 2009, PC entered into a \$2,250,000 loan agreement with the USDA for the development of Phase I of the project. During the year ended December 31, 2012, PC applied for and was granted a loan reamortization from the USDA. Per the amended loan agreement, the loan bears interest at a rate of 1.00 percent and matures November 25, 2043. Principal and interest are due in annual installments of \$84,715 beginning January 1, 2014, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the loan balance was \$2,185,109 and \$2,186,307, respectively.

On November 25, 2009, PC entered into a \$1,500,000 loan agreement with the USDA for the development of Phase II of the project. During the year ended December 31, 2012, PC applied for and was granted a loan reamortization from the USDA. Per the amended loan agreement, the loan bears interest at a rate of 1.00 percent and matures November 25, 2043. Principal and interest are due in annual installments of \$57,066 beginning January 1, 2014, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the loan balance was \$1,457,205 and \$1,457,205, respectively.

On December 17, 2009, PC entered into a \$3,855,304 loan agreement with the FHFC for the development of Phase I of the project. The loan bears interest at a rate of 1.00 percent and matures January 1, 2042. Annual interest payments are payable out of development cash flows, as defined, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the loan balance was \$3,855,304 and \$3,855,304, respectively.

On December 17, 2009, PC entered into a \$1,140,282 loan agreement with the FHFC for the development of Phase II of the project. The loan is non-interest bearing and requires a single balloon payment at maturity on January 1, 2042. As of December 31, 2012 and 2011, the loan balance was \$1,140,282 and \$1,140,282, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

On January 18, 2007, OSC entered into a \$3,000,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 18, 2040. The loan requires annual payments of accrued interest beginning January 1, 2008 through January 1, 2009. Principal and interest are payable in annual installments of \$113,027 beginning on January 1, 2010, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the loan balance was \$2,661,532 and \$2,746,343, respectively.

On December 28, 2007, ESH entered into a \$300,000 loan agreement with the FHFC for the construction of the project. The loan is non-interest bearing and requires a single balloon payment at maturity on December 28, 2027. As of December 31, 2012 and 2011, the loan balance was \$241,458 and \$241,458, respectively.

Notes and mortgages payable under BCHC are as follows:

On May 3, 2002, BCHC entered into a \$2,500,000 loan agreement with the USDA to provide funds for the construction of MSV. The loan bears interest at a rate of 1.00 percent per annum and matures May 3, 2035. Principal and interest are payable in annual installments of \$94,189. USDA requires a monthly payment to a debt service reserve account of 1/12th of the annual principal and interest payment. As of December 31, 2012 and 2011, the balance of the loan was \$1,850,732 and \$1,925,142, respectively.

On October 3, 2007, EGALP entered into a \$3,000,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. Principal and interest are payable in annual installments of \$113,027 beginning on January 1, 2010, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the balance of the loan was \$2,657,886 and \$2,742,731, respectively.

On October 3, 2007, EGII entered into a \$2,250,000 loan agreement with the USDA. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. Principal and interest are payable in annual installments of \$84,770 beginning January 1, 2010 with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the balance of the loan was \$1,995,903 and \$2,059,514, respectively.

On May 3, 2002, MSV entered into a \$3,280,000 loan agreement with the FHFC for the construction of the project. The funds were provided by the FHFC under the HOME Investment Partnerships Program (HOME). The loan is non-interest bearing and requires a single balloon payment due on May 3, 2035. As of December 31, 2012 and 2011, the balance of the loan was \$3,280,000 and \$3,280,000, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

On October 31, 2007, EGII entered into a \$3,500,000 loan agreement with the FHFC. The funds were provided by the FHFC under the SAIL Program for the construction of Phase III of the EGA project. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2040. The loan requires annual payments based on the actual cash flow of the phase, as defined. As of December 31, 2012 and 2011, the balance of the loan was \$2,803,830 and \$2,803,830, respectively, and accrued interest was \$113,304 and \$94,065, respectively.

On October 15, 2001, MSV entered into a \$237,000 loan agreement with the Collier County Housing and Urban Development under the State Housing Initiative Program (SHIP). According to the terms of the promissory note, repayment of the loan was to be in yearly installments of \$59,250 beginning on July 1, 2009 and terminating on July 1, 2012. The unpaid portion of the required principal payments accrued interest at 12 percent per annum from the date when the payment was due until paid in full. MSV inadvertently escrowed the related debt service payments instead of delivering the required payments to SHIP. As a result, SHIP invoiced MSV accrued interest of \$29,687 in April of 2012, of which \$15,467, \$10,665, and \$3,555 relates to 2011, 2010, and 2009, respectively. For the year ended December 31, 2011, no interest was expensed. During 2011, the loan was paid in full.

On July 1, 2007, EGALP entered into a SHIP loan agreement with Collier County, for \$442,000 to fund the construction of the project. The loan is non-interest bearing and requires no payments for the first six years. Beginning December 31, 2014, annual principal payments of \$31,571 are required through maturity on December 31, 2028. As of December 31, 2012 and 2011, the balance was \$442,000 and \$442,000, respectively.

Notes and mortgages payable under LMHC are as follows:

On September 22, 2000, LMHC entered into a series of loans and grants with the USDA to construct MV. USDA loans of \$3,255,480 and USDA grants of \$1,919,520 were combined with a \$342,000 grant from the FHLBA to provide construction funds for the Family Units. The loans bear interest at a rate of 1.00 percent per annum and mature November 1, 2036. The loans are repayable in annual installments of \$122,652 due on November 1 of each year. As of December 31, 2012 and 2011, the balance of the loans was \$2,507,797 and \$2,604,052, respectively.

On November 13, 2009, LMHC entered into a \$2,910,000 loan agreement with the USDA for the construction of MV4. The loan bears interest at a rate of 1.00 percent per annum and matures January 1, 2042. The loan requires annual interest payments beginning on January 1, 2010. Principal and interest will be

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

payable in annual installments of \$109,712 beginning on January 1, 2012, with any unpaid principal and interest due at maturity. As of December 31, 2012 and 2011, the balance of the loan was \$2,745,287 and \$2,826,656, respectively.

Loans of \$580,000 were obtained from the Hillsborough County Community Improvement District (HCCID) to purchase the three parcels of land and to pay the water and waste-water fees for the site of MV. The loans consist of \$300,000 obtained on February 21, 2001, \$80,000 obtained on October 9, 2001, and \$200,000 obtained on February 9, 2004. The loans are non-interest bearing for the first 5 years, 1.00 percent interest for years 6 through 10, 1.25 percent interest for years 11 through 20, 1.50 percent interest for years 21 through 30, and 2.00 percent for years 31 through 40. The loans require annual interest payments based on the available cash flow of MV, as defined. The loans mature upon disposition of property. As of December 31, 2012 and 2011, the balance of the loans was \$579,895 and \$579,895, respectively.

On November 30, 2009, MV4 entered into a \$1,250,000 loan agreement with the FHFC under the SAIL Program for the construction of the project. The loan bears interest at a fixed rate of 1.00 percent per annum and matures November 30, 2042. The loan requires annual interest payments based on the available cash flow of MV4, as defined. As of December 31, 2012 and 2011, the balance of the loan was \$1,250,000 and \$1,250,000, respectively.

Notes and mortgages payable under EHT are as follows:

Tax Credit Assistance Program (TCAP) Loans

On April 29, 2010, OGA-LTD entered into a TCAP agreement with the FHFC for an amount not to exceed \$3,430,567, consisting of a TCAP Loan ("TCAP Loan") of \$2,750,567 and a TCAP/Supplemental Loan ("Supplemental Loan") of \$680,000.

The TCAP Loan bears interest at a rate of zero percent through May 1, 2012 and is non-amortizing during the term of the note. Commencing on May 1, 2012, annual interest payment will be due at a rate of .33% simple interest on the outstanding principal balance, subject to available cash flow, as defined. Unpaid interest and principal is due on February 16, 2027.

The Supplemental Loan bears no interest and is non-amortizing during the term of the note, with a balloon payment due and payable on April 29, 2025. As of December 31, 2012 and 2011, the outstanding principal balance was \$3,430,567 and \$3,430,567, respectively.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

On April 7, 2010, CCA-LTD entered into a TCAP agreement with the FHFC for an amount not to exceed \$3,675,167, consisting of a TCAP Loan of \$2,995,167 and a Supplemental Loan of \$680,000.

The TCAP Loan bears interest at a rate of zero percent through May 1, 2012 and is non-amortizing during the term of the note. Commencing on May 1, 2012, annual interest payments will be due, subject to available cash flow, as defined, at a blended rate of 1.0% simple interest per annum on the portion of the development determined by the FHFC to be owned by a for-profit borrower, and 0% interest on the portion of the development determined by the FHFC to be owned by a non-profit borrower on the outstanding principal balance. Unpaid interest and principal is due on February 16, 2027.

The Supplemental Loan bears interest at a rate of 0% simple interest per annum on the outstanding principal balance and is non-amortizing during the term of the note, with a balloon payment due and payable on April 7, 2025. As of December 31, 2012 and 2011, the outstanding principal balance was \$3,675,167 and \$3,675,167, respectively.

Tax Credit Exchange Program (TCEP) Loans

On April 29, 2010, OGA-LTD entered into a TCEP agreement with the FHFC for an amount not to exceed \$12,674,248. The TCEP loan bears no interest and is non-amortizing during the term of the note. As of December 31, 2012 and 2011, the outstanding principal balance was \$10,984,348 and \$11,829,298, respectively.

On April 7, 2010, CCA-LTD entered into a TCEP agreement with the FHFC for an amount not to exceed \$10,242,500. The TCEP loan bears interest at rate of zero percent and is non-amortizing during the term of the note. As of December 31, 2012 and 2011, the outstanding principal balance was \$8,876,834 and \$9,559,667, respectively.

Under the TCEP loan agreements, loan principal is forgiven annually over the 15-year tax credit compliance period. Forgiveness is subject to OGA-LTD and CCA-LTD maintaining compliance with Section 42. Prior to being forgiven the remaining outstanding portion of the loans that has not been forgiven is subject to repayment in the event OGA-LTD and CCA-LTD fail to maintain compliance. No principal payments are required to be paid during the loan terms. The loan agreements provide FHFC with a security interest in the buildings and improvements of the projects. The loans are subordinated to the first mortgages.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Loan proceeds funded with Section 1602 program funds are intended to assist with payment of development costs of LIHTC properties. In exchange for the funds received, OGA-LTD and CCA-LTD have agreed to operate their properties in accordance with Section 42. Under the American Recovery and Reinvestment Act, portions of the loans which have been forgiven are considered government assistance related to assets and are considered non-taxable income. OGA-LTD and CCA-LTD will record the portions of their loans which have been forgiven as a deferred liability which will be recognized as tax-exempt income based on the total amount of the loan expected to be forgiven on a straight line basis over the depreciable life of the buildings and improvements of the projects. The TCAP and TCEP loans are serviced by Seltzer Management Group, Inc.

HOME Loans

On April 29, 2010, OGA-LTD entered into a HOME loan agreement with the FHFC for an amount not to exceed \$115,900. The loan bears interest of 0.495 percent per annum on the outstanding principal balance. Annual interest payments on the HOME Loan will be due no later than October 1, 2010 and is non-amortizing. The entire unpaid principal balance is due on February 16, 2030, the maturity date. As of December 31, 2012 and 2011, the outstanding principal balance was \$115,900 and \$115,900, respectively.

On April 7, 2010, CCA-LTD entered into a HOME loan agreement with the FHFC, for an amount not to exceed \$130,000. The loan bears interest of 0.495 percent per annum on the outstanding principal balance. Annual interest payments on the HOME Loan will be due no later than October 10. The entire unpaid principal balance is due on February 16, 2027, the maturity date. As of December 31, 2012 and 2011, the outstanding principal balance was \$130,000 and \$130,000, respectively.

The estimated aggregate principal maturities of the promissory and mortgage notes payable subsequent to December 31, 2012 are as follows:

	RNI	ECA	BCHC	LMHC	EHT	Total
2013	\$ 150,000	\$ 708,863	\$ 220,519	\$ 178,482	\$ 1,527,783	\$ 2,785,647
2014	131,250	575,579	254,294	180,261	1,527,783	2,669,167
2015	-	585,749	256,522	182,047	1,527,783	2,552,101
2016	-	596,331	258,771	184,303	1,527,783	2,567,188
2017	-	607,925	261,043	186,150	1,527,783	2,582,901
Thereafter	-	22,660,104	11,779,202	6,171,736	19,573,901	60,184,943
Total	\$ 281,250	\$ 25,734,551	\$ 13,030,351	\$ 7,082,979	\$ 27,212,816	\$ 73,341,947

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

All loans noted above are secured by the underlying value of the real estate collateral, improvements, easements of other interests, assignments of rents and leases and personal property.

Note 6 - Asset Management Fee

FHFC, in its capacity as asset manager of the OGA-LTD and CCA-LTD projects, is to be paid an annual cumulative asset management fee. The fee equal to \$3,000 per project, per year, commencing on the closing dates. The asset management fee is paid to the FHFC or the appointed loan servicer for reviewing informational reports, financial statements, and other financial, program, and compliance reports as required by TCAP. The fee is payable to the extent of available cash flow and unpaid fees accrue without interest. During 2012 and 2011, asset management fees of \$3,000 and \$3,000, respectively, were incurred by OGA-LTD and \$3,000 and \$3,000, respectively, remained payable. During 2012 and 2011, asset management fees of \$3,000 and \$3,000, respectively, were incurred by CCA-LTD and \$3,000 and \$3,000, respectively, remained payable. These amounts are included in other accrued expenses on the accompanying consolidated statements of financial position.

Note 7 - Partner's Capital Contributions

Live Oak Villas, Ltd.

Pursuant to the partnership agreement, the investor limited partner of LOVI-LTD was required to make capital contributions of \$7,295,173. As of December 31, 2012 and 2011, all required capital contributions had been received. In addition to the required capital contributions, LOVI-LTD received an upward tax credit adjuster of \$117,419 during 2006.

Live Oak Villas II, Ltd.

Pursuant to the partnership agreement, the investor limited partner of LOVII-LTD was required to make capital contributions of \$11,449,205. As of December 31, 2012 and 2011, all required capital contributions had been received, less a downward tax credit adjuster of \$35,734 received during 2009.

Oaks at Shannon's Crossing, LP

Pursuant to the partnership agreement, the investment limited partner of OSC is required to make capital contributions of \$9,455,565. As of December 31, 2012 and 2011, the investor limited partner had made capital contributions of \$9,455,565 and \$9,455,565, respectively, less a downward tax credit adjuster of \$435,011 received during 2009.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Eden Gardens Apartments, LP

Pursuant to the partnership agreement, the limited partner of EGALP is required to make capital contributions of \$2,840,716. As of December 31, 2012 and 2011, the limited partner had made contributions of \$2,316,297 and \$2,316,297, respectively, and is required to contribute \$524,419 in additional installments, as defined. The total capital contribution required by the limited partner is subject to adjustment if certain annual tax credit benchmarks are not attained, as defined.

Orchid Grove Apartments, Ltd.

Pursuant to the partnership agreement, the partners of OGA-LTD are required to make aggregate capital contributions totaling \$100. The limited partner is required to make a capital contribution of \$99.99, which remains payable as of December 31, 2012 and 2011. The managing general partner is required to make a capital contribution of \$0.0033 and OA is required to make a capital contribution of \$0.0067, which has been paid as of December 31, 2012 and 2011. During 2012 and 2011, the limited partner contributed \$- and \$650, respectively.

Cypress Cove Apartments, Ltd.

Pursuant to the partnership agreement, the partners of CCA-LTD are required to make aggregate capital contributions totaling \$100. The limited partner is required to make a capital contribution of \$99.99, the special limited partner is required to make a capital contribution of \$0.0033, and CC is required to make a capital contribution of \$0.0067. As of December 31, 2012, these capital contributions have not been made. Upon achievement of stabilization, the limited partner is required to contribute an additional \$650 to CCA-LTD. During 2011, this additional contribution was paid.

Note 8 - Pension Plan

The Corporation has a 401(k) profit sharing plan (the Plan) for the exclusive benefit of its employees. The Plan covers all full time employees who have attained the age of 21 and completed three months of service. The Corporation provides qualified non-elective contributions of 3 percent of compensation for all eligible employees. Additional discretionary contributions of 4.3 percent of compensation up to \$21,000 and 8.6 percent of compensation in excess of \$21,000 may be made by the Corporation. The additional contributions vest proportionately over a three-year period. The Corporation's contributions for the years ended December 31, 2012 and 2011 were \$147,996 and \$147,076, respectively, and are included in project administration expenses on the accompanying consolidated statements of activities.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Note 9 - Property Management Fees

Professional Management, Inc. is an unrelated management company that oversees the operations of LOVI-LTD, LOVII-LTD, OGA-LTD, and CCA-LTD. The current management agreements for LOVI-LTD and LOVII-LTD provide for monthly fees equal to the greater of \$2,500 or 5 percent of gross collections, as defined. The current management agreements for OGA-LTD and CCA-LTD provide for monthly fees equal to the greater of \$3,500 or 5 percent of gross collections, as defined. For the years ended December 31, 2012 and 2011, property management fees of \$139,185 and \$140,071, respectively, were incurred and \$965 and \$1,932, respectively remain payable.

Note 10 - Concentration of Credit Risk

The Corporation maintains its cash balances in multiple financial institutions. At times, these balances may exceed the federal insurance limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect these balances as of December 31, 2012 and 2011.

Note 11 - Current Vulnerability Due to Certain Concentrations

The Corporation's principal assets are its rental units. The Corporation's operations are concentrated in the affordable housing real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the projects are subject to the administrative directives, rules, and regulations of federal, state and local regulatory agencies, including, but not limited to, Rural Development and the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an Act of Congress or an administrative change mandated by Rural Development or the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Note 12 - Commitments and Contingencies

Farm Labor Requirement

In accordance with the loan agreements with the USDA, EFV, OSC, MSV, EGALP, MV and LOVI-LTD designated their projects as farm labor projects. 100 percent of the EFV, OSC, MSV and EGALP units and 62 of the MV units must be rented to eligible farm workers, as defined. In 2010, the USDA granted OSC a two-year exemption from this requirement. 60 percent of LOVI-LTD's units must be rented to eligible farm workers, as defined.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Operating Deficit Guaranty

In connection with the development of the tax credit projects, LOVI, LOVII and SCL are required to loan the respective partnerships amounts to cover operating deficits for 36 months following rental achievement, as defined. The maximum amount of operating loans ranges from \$175,000 to \$325,000 and advances are repayable only from available cash flows, as defined. During 2012 and 2011, ECA made operating deficit loans of \$40,000 and \$40,000, respectively, to LOVII-LTD (see also Note 4). The balances between ECA and LOVII-LTD have been eliminated and are not included on the accompanying consolidating statements of financial position.

Pursuant to the mortgage loan documents, OA and CC are required to advance funds to their respective partnerships to cover operating deficits of the related projects. OA and CC are liable to fund 20% of any operating deficits of their respective partnerships, until such time that the managing general partners are released from their guarantees under the mortgage loan documents by the FHFC. Any advances will be treated as subordinate loans repayable with interest. As of December 31, 2012, no operating deficit advances have been made.

Pursuant to the partnership agreement, CSS is required to loan EGALP amounts not to exceed \$200,000 to cover operating deficits of the project beginning with the achievement of breakeven operations, as defined, and continuing for five years or the achievement of a debt coverage ratio of 1 to 1 over a consecutive 12-month period, whichever is later. Operating deficit advances are non-interest bearing and are repayable only from available cash flows, as defined. As of December 31, 2012 and 2011, no operating deficit advances have been made.

Development Deficit Guaranty

LOVII, SCL, CSS, OA, and CC have guaranteed to the performance and payment obligations of the developer under the development agreement to the respective partnerships and their limited partners. As of December 31, 2012 and 2011, no development deficit advances have been made.

Operating Reserve

Pursuant to the partnership agreement of EGALP, CSS is required to maintain an operating reserve account of \$50,000 through the end of the tax credit period, as defined. The operating reserve account will be funded out of the limited partner's third and fourth capital contribution installments or the proceeds from the permanent loan, whichever is available first. As of December 31, 2012 and 2011, the limited partner had not made its final capital contribution and accordingly, the reserve had not been funded. As of December 31, 2012 and 2011, no funding of the operating reserve was required (see also Note 3).

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

Exchange Funds

The exchange funds of the affordable housing partnerships are contingent on their ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in repayment of exchange funds.

Low-income Housing Tax Credits

The low-income housing tax credits of the affordable housing partnerships are contingent on their ability to maintain compliance with applicable sections of Section 42 of the Internal Revenue Code. Failure to maintain compliance with tenant income eligibility and rent limits or to correct instances of noncompliance within a reasonable time period could result in recapture of previously claimed tax credits plus interest. In addition, any such noncompliance, if it were to occur, likely would result in an adjustment to the contributed capital of the limited partners.

Construction Contracts

EMH

EMH entered into a construction contract with Siltek Group, Inc. (Siltek) to perform general contractor services in conjunction with the construction of EMH. As of December 31, 2012 and 2011, \$2,874,929 and \$2,847,299, respectively, had been incurred for services completed to date, and \$- and \$365,673, respectively, remained payable, including retainage of \$- and \$279,138, respectively. These amounts are included in construction costs payable on the accompanying consolidated statement of financial position.

OSC

OSC entered into a construction contract with WaterMark Construction, LP (WaterMark) for the construction of the project for \$9,434,691, including all change orders. As of December 31, 2012 and 2011, the full amount of the contract had been incurred. As of December 31, 2011, retainage of \$50,000 remained payable, which is included in construction costs payable on the accompanying consolidated statement of financial position. During the year ended December 31, 2012, OSC made payments of \$46,000 and the payable was repaid in full due to a reduced settlement amount at the conclusion of the litigation (see Note 13).

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

ESH

ESH entered into a construction contract with WaterMark for the construction of the project for \$638,418, including all change orders. As of December 31, 2012 and 2011, the full amount of the contract had been incurred and retainage of \$32,640 and \$32,640, respectively, remained payable. These amounts are included in construction costs payable on the accompanying consolidated statements of financial position. See Note 13.

EFV 4

EFV 4 entered into a construction contract with Naroca Construction Company for the construction of the project for \$2,121,678, including all change orders. As of December 31, 2012, \$109,789 had been incurred. As of December 31, 2012, \$109,789 remained payable, including retainage of \$10,979. This amount is included in construction costs payable on the accompanying consolidated statement of financial position.

EGALP

On March 9, 2007, EGALP entered into an agreement with WaterMark for the construction of the project for \$4,698,961 including all change orders. As of December 31, 2012 and 2011, the full amount of the contract had been incurred and retainage of \$281,228 and \$281,228, respectively, remained payable. These amounts are included in construction costs payable on the accompanying consolidated statements of financial position. See Note 13.

EGII

On March 9, 2007, EGII entered into an agreement with WaterMark for the construction of the project for \$4,760,364, including all change orders. As of December 31, 2012 and 2011, the full amount of the contract had been incurred and retainage of \$290,820 and \$290,820, respectively, remained payable. These amounts are included in construction costs payable on the accompanying consolidated statements of financial position. See Note 13.

BCHC

During 2011, BCHC entered into a construction contract for \$535,461, including executed change orders of \$14,804, with Siltek to perform general contractor services in conjunction with energy upgrades for MSV. As of December 31, 2012, the total contract had been incurred and paid. As of December 31, 2011, \$237,159 had been incurred and \$237,159 remained payable, including retainage of \$26,351. These amounts are included in construction costs payable on the accompanying consolidated statements of financial position.

Rural Neighborhoods, Inc. and Its Affiliates

Notes to Consolidated Financial Statements - Continued

December 31, 2012 and 2011

MV4

On April 6, 2009, MV4 entered into a construction contract with Siltek for the construction of the project for \$3,027,602, including all change orders. As of December 31, 2012 and 2011, the full amount of the contract had been incurred. During 2011, the remaining balance of the contract was paid in full.

Note 13 - Litigation

In April 2010, WaterMark placed liens on all three phases of the EGA project and the OSC project, and filed litigation against the Corporation for \$600,000. The litigation alleges the Corporation improperly retained liquidated damages due to WaterMark's late completion of the EGA and OSC projects. The Corporation plans to defend the litigation and assert a counterclaim against WaterMark. During 2012, WaterMark added the architect and engineer to the lawsuit. The litigation is still in the preliminary stages and the evaluation of an unfavorable outcome is premature; however, based upon a preliminary analysis, management believes that an unfavorable outcome is unlikely.

Note 14 - Subsequent Events

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date, require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through May 31, 2013 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

Supplementary Information

Rural Neighborhoods, Inc. and Its Affiliates
Consolidating Statement of Financial Position
December 31, 2012

Assets	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Current assets									
Cash	\$ 3,956,773	\$ 783,710	\$ 155,602	\$ 51,231	\$ 169,264	\$ 43,276	\$ 25,167	\$ -	\$ 5,185,023
Accounts receivable - tenants	-	31,840	7,816	17,177	10,923	-	-	-	67,756
Miscellaneous receivables	191,230	3,907	167	-	862	-	-	-	196,166
Due from affiliates	92,890	1,010	-	-	-	167,817	-	(256,977)	4,740
Interest receivable - affiliates	94,335	-	-	-	-	-	-	(94,335)	-
Notes receivable - affiliates	4,455,026	840,000	-	-	-	-	-	(5,215,026)	80,000
Developer fee receivable	951,233	-	-	-	-	-	-	(951,233)	-
Prepaid expenses	2,742	364,673	9,480	29,182	15,743	7,817	-	-	429,637
Total current assets	9,744,229	2,025,140	173,065	97,590	196,792	218,910	25,167	(6,517,571)	5,963,322
Deposits and reserves									
Tenants' security deposits	-	302,048	24,900	37,950	109,290	-	-	-	474,188
Mortgage escrows	-	380,280	31,072	49,391	102,626	-	-	-	563,369
Replacement reserves	-	3,615,836	432,084	341,392	80,135	129,127	-	-	4,598,574
Debt service reserves	-	678,637	83,646	20,601	-	-	-	-	782,884
Operating reserves	-	27,152	-	-	912,954	-	-	-	940,106
Other deposits	-	52,667	650	6,870	7,225	10,000	-	-	77,412
Total deposits and reserves	-	5,056,620	572,352	456,204	1,212,230	139,127	-	-	7,436,533
Rental property									
Land	-	5,208,812	925,906	477,808	3,139,500	-	424,009	-	10,176,035
Land improvements	-	4,642,051	2,172,750	891,353	820,365	-	-	-	8,526,519
Building and improvements	-	84,769,815	19,928,667	10,314,497	22,866,989	-	-	(4,156,453)	133,723,515
Furniture and equipment	3,577	1,880,711	213,882	234,495	1,863,661	326,751	-	-	4,523,077
Construction in progress	-	575,282	-	-	-	-	169,542	-	744,824
Total rental property	3,577	97,076,671	23,241,205	11,918,153	28,690,515	326,751	593,551	(4,156,453)	157,693,970
Less accumulated depreciation	(3,577)	(19,327,347)	(3,176,048)	(1,769,513)	(1,775,163)	(290,510)	-	-	(26,342,158)
Net rental property	-	77,749,324	20,065,157	10,148,640	26,915,352	36,241	593,551	(4,156,453)	131,351,812
Other assets									
Deferred loan costs, net	-	355,644	45,834	71,074	75,096	-	-	-	547,648
Tax credit monitoring fees, net	-	270,899	53,639	-	298,280	-	-	-	622,818
Other assets	-	-	163,824	-	-	2,969	-	-	166,793
Total other assets	-	626,543	263,297	71,074	373,376	2,969	-	-	1,337,259
Total assets	\$ 9,744,229	\$ 85,457,627	\$ 21,073,871	\$ 10,773,508	\$ 28,697,750	\$ 397,247	\$ 618,718	\$ (10,674,024)	\$ 146,088,926

(continued)

Rural Neighborhoods, Inc. and Its Affiliates
Consolidating Statement of Financial Position – Continued
December 31, 2012

Liabilities and net assets	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Current liabilities									
Accounts payable	\$ 13,567	\$ 53,986	\$ 1,260	\$ 10,572	\$ 23,985	\$ 2,537	\$ 14,700	\$ -	\$ 120,607
Accrued expenses	65,597	141,064	35,583	39,158	38,774	90,306	-	(9,972)	400,510
Accrued interest payable	-	124,494	115,799	70,662	303	-	-	-	311,258
Accrued interest - affiliate notes payable	-	-	-	-	-	-	26,108	(26,108)	-
Accrued investor services management fee	-	5,628	-	-	-	-	-	-	5,628
Due to affiliates	6,401	65,608	105,734	40,094	82,200	-	-	(247,005)	53,032
Construction costs payable	-	186,609	572,048	-	-	-	-	-	758,657
Current portion of mortgages payable	150,000	708,863	220,519	178,482	1,527,783	-	-	-	2,785,647
Total current liabilities	235,565	1,286,252	1,050,943	338,968	1,673,045	92,843	40,808	(283,085)	4,435,339
Deposits and prepayments									
Tenant security deposits	-	302,048	24,900	37,950	109,290	-	-	-	474,188
Prepaid rents	-	18,637	2,631	2,436	6,841	-	-	-	30,545
Total deposits and prepayments	-	320,685	27,531	40,386	116,131	-	-	-	504,733
Long-term liabilities									
Due to affiliates	-	-	158,237	89,236	-	-	-	(89,236)	158,237
Developer fee payable	-	1,657,580	1,478,291	-	210,000	-	-	(1,019,460)	2,326,411
Notes payable - affiliates	-	3,218,374	1,201,306	58,200	-	80,000	567,910	(5,125,790)	-
Deferred revenue	-	-	-	-	1,909,728	-	-	-	1,909,728
Mortgages payable, net of current portion	131,250	25,025,688	12,809,832	6,904,497	25,685,033	-	-	-	70,556,300
Total long-term liabilities	131,250	29,901,642	15,647,666	7,051,933	27,804,761	80,000	567,910	(6,234,486)	74,950,676
Commitments and contingencies	-	-	-	-	-	-	-	-	-
Non-controlling interest in subsidiaries	-	21,266,992	1,942,929	-	(747,279)	-	-	-	22,462,642
Unrestricted net assets	9,240,714	32,682,056	2,404,802	3,342,221	(148,908)	224,404	10,000	(4,156,453)	43,598,836
Permanently restricted net assets	136,700	-	-	-	-	-	-	-	136,700
Total net assets	9,377,414	32,682,056	2,404,802	3,342,221	(148,908)	224,404	10,000	(4,156,453)	43,735,536
Total liabilities and net assets	\$ 9,744,229	\$ 85,457,627	\$ 21,073,871	\$ 10,773,508	\$ 28,697,750	\$ 397,247	\$ 618,718	\$ (10,674,024)	\$ 146,088,926

Rural Neighborhoods, Inc. and Its Affiliates
Consolidating Statement of Financial Position
December 31, 2011

Assets	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Current assets									
Cash	\$ 3,856,934	\$ 981,145	\$ 179,051	\$ 63,844	\$ 154,382	\$ 19,326	\$ -	\$ -	\$ 5,254,682
Accounts receivable - tenants	-	23,239	28,575	5,334	7,258	-	-	-	64,406
Miscellaneous receivables	216,961	4,216	-	-	25,917	-	-	-	247,094
Due from affiliates	130,823	-	10	-	-	63,017	-	(188,245)	5,605
Interest receivable - affiliates	107,520	-	-	-	-	-	-	(107,520)	-
Notes receivable - affiliates	4,335,026	840,000	-	-	-	-	-	(5,095,026)	80,000
Developer fee receivable	935,900	-	-	-	-	-	-	(935,900)	-
Prepaid expenses	3,607	392,001	6,943	41,074	41,834	2,285	-	-	487,744
Total current assets	9,586,771	2,240,601	214,579	110,252	229,391	84,628	-	(6,326,691)	6,139,531
Deposits and reserves									
Tenants' security deposits	-	259,393	24,000	31,990	116,707	-	-	-	432,090
Mortgage escrows	-	232,809	37,907	46,769	36,373	-	-	-	353,858
Replacement reserves	-	3,122,186	406,936	284,280	32,046	128,788	-	-	3,974,236
Debt service reserves	-	635,086	20,993	24,109	-	-	-	-	680,188
Operating reserves	-	27,114	-	-	910,542	-	-	-	937,656
Other deposits	-	51,989	400	6,870	3,084	18,896	-	-	81,239
Total deposits and reserves	-	4,328,577	490,236	394,018	1,098,752	147,684	-	-	6,459,267
Rental property									
Land	-	5,632,821	925,906	477,808	3,139,500	-	-	-	10,176,035
Land improvements	-	4,332,142	2,159,537	891,353	814,445	-	-	-	8,197,477
Building and improvements	-	81,085,592	19,200,674	10,293,670	22,866,989	-	-	(3,681,306)	129,765,619
Furniture and equipment	3,577	1,840,774	196,929	234,495	1,863,661	345,069	-	-	4,484,505
Construction in progress	-	4,370,257	259,722	12,498	-	-	-	(180,339)	4,462,138
Total rental property	3,577	97,261,586	22,742,768	11,909,824	28,684,595	345,069	-	(3,861,645)	157,085,774
Less accumulated depreciation	(2,862)	(16,765,921)	(2,545,116)	(1,424,822)	(883,713)	(289,196)	-	-	(21,911,630)
Net rental property	715	80,495,665	20,197,652	10,485,002	27,800,882	55,873	-	(3,861,645)	135,174,144
Other assets									
Deferred loan costs, net	-	380,126	47,608	73,451	80,988	-	-	-	582,173
Tax credit monitoring fees, net	-	299,321	58,355	-	321,872	-	-	-	679,548
Other assets	-	18,002	156,314	-	-	4,339	-	-	178,655
Total other assets	-	697,449	262,277	73,451	402,860	4,339	-	-	1,440,376
Total assets	\$ 9,587,486	\$ 87,762,292	\$ 21,164,744	\$ 11,062,723	\$ 29,531,885	\$ 292,524	\$ -	\$ (10,188,336)	\$ 149,213,318

(continued)

Rural Neighborhoods, Inc. and Its Affiliates
Consolidating Statement of Financial Position - Continued
December 31, 2011

Liabilities and net assets	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Current liabilities									
Accounts payable	\$ -	\$ 80,656	\$ 43,366	\$ 7,855	\$ 19,665	\$ -	\$ -	\$ -	\$ 151,542
Accrued expenses	58,427	93,363	24,000	36,921	33,785	91,806	-	(7,671)	330,631
Accrued interest payable	-	72,560	98,488	51,099	-	-	-	-	222,147
Accrued interest - affiliate notes payable	-	26,108	-	-	-	-	-	(26,108)	-
Accrued investor services management fee	-	5,364	-	-	-	-	-	-	5,364
Due to affiliates	409	51,302	198,914	67,647	-	-	-	(211,285)	106,987
Construction costs payable	-	448,313	809,207	-	-	-	-	-	1,257,520
Current portion of mortgages payable	150,000	644,215	218,335	176,712	1,527,783	-	-	-	2,717,045
Total current liabilities	208,836	1,421,881	1,392,310	340,234	1,581,233	91,806	-	(245,064)	4,791,236
Deposits and prepayments									
Tenant security deposits	-	259,393	24,000	31,990	116,707	-	-	-	432,090
Prepaid rents	-	11,890	2,355	1,453	11,331	-	-	-	27,029
Total deposits and prepayments	-	271,283	26,355	33,443	128,038	-	-	-	459,119
Long-term liabilities									
Due to affiliates	-	-	112,699	89,236	-	-	-	(89,236)	112,699
Developer fee payable	-	1,866,367	1,478,291	-	377,906	-	-	(986,601)	2,735,963
Notes payable - affiliates	-	3,706,284	1,201,306	58,200	-	40,000	-	(5,005,790)	-
Deferred revenue	-	-	-	-	954,864	-	-	-	954,864
Mortgages payable, net of current portion	281,250	25,130,620	13,034,882	7,083,891	27,212,816	-	-	-	72,743,459
Total long-term liabilities	281,250	30,703,271	15,827,178	7,231,327	28,545,586	40,000	-	(6,081,627)	76,546,985
Commitments and contingencies	-	-	-	-	-	-	-	-	-
Non-controlling interest in subsidiaries	-	22,184,784	2,034,574	-	(722,924)	-	-	-	23,496,434
Unrestricted net assets	9,097,400	33,181,073	1,884,327	3,457,719	(48)	160,718	-	(3,861,645)	43,919,544
Total liabilities and net assets	\$ 9,587,486	\$ 87,762,292	\$ 21,164,744	\$ 11,062,723	\$ 29,531,885	\$ 292,524	\$ -	\$ (10,188,336)	\$ 149,213,318

Rural Neighborhoods, Inc. and Its Affiliates

Consolidating Statement of Activities

Year ended December 31, 2012

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Rental revenue									
Potential rental revenue	\$ -	\$ 6,303,822	\$ 1,302,780	\$ 994,680	\$ 1,231,735	\$ -	\$ -	\$ -	\$ 9,833,017
Less: Vacancies and concessions	-	(707,025)	(82,188)	(261,166)	(63,944)	-	-	-	(1,114,323)
Total rental revenue	-	5,596,797	1,220,592	733,514	1,167,791	-	-	-	8,718,694
Other revenue									
Application fees	-	23,502	2,660	6,445	5,115	-	-	-	37,722
Laundry and vending	-	102,550	-	-	72,660	53,551	-	-	228,761
Interest income	37,423	32,726	1,391	1,398	3,177	381	-	-	76,496
Interest income - related party	20,240	4,000	-	-	-	-	-	(24,240)	-
Tenant charges	-	82,619	20,795	50,668	41,939	-	-	-	196,021
Property management fees	-	-	-	-	-	522,033	-	(522,033)	-
Developer fees	294,808	-	-	-	-	-	-	(294,808)	-
Income from forgiveness of debt	150,000	-	-	-	572,919	-	-	-	722,919
Grant revenue	274,900	267,760	679,163	-	-	-	-	-	1,221,823
Miscellaneous revenue	14,433	105,127	946	9,594	8,245	102,636	-	-	240,981
Total other revenue	791,804	618,284	704,955	68,105	704,055	678,601	-	(841,081)	2,724,723
Expenses									
Operating and maintenance	-	1,510,166	225,109	145,180	271,128	17,738	-	-	2,169,321
Utilities	-	522,219	71,605	96,681	74,153	-	-	-	764,658
Project administration expenses	440,258	1,077,757	223,470	159,045	369,527	570,091	-	-	2,840,148
Management fees	-	441,265	88,227	54,950	158,976	-	-	(522,033)	221,385
Taxes and insurance	30,179	812,387	94,745	62,143	211,246	7,454	-	-	1,218,154
Bad debt expense	-	28,944	22,148	8,462	11,898	-	-	-	71,452
Interest on note payable - affiliates	-	-	6,713	-	-	-	-	(6,713)	-
Interest on deferred developer fee	-	52,581	-	-	-	-	-	(17,527)	35,054
Interest on mortgages payable	-	459,295	124,913	74,226	1,402	-	-	-	659,836
Total expenses	470,437	4,904,614	856,930	600,687	1,098,330	595,283	-	(546,273)	7,980,008
Income (loss) from operations	321,367	1,310,467	1,068,617	200,932	773,516	83,318	-	(294,808)	3,463,409
Non-operating expenses									
Investor services management fee	-	5,728	-	-	-	-	-	-	5,728
Loss on project development	-	81,365	-	-	-	-	-	-	81,365
Depreciation expense	715	2,572,926	633,297	344,691	891,450	19,632	-	-	4,462,711
Amortization expense	-	60,493	6,490	2,377	28,284	-	-	-	97,644
Total non-operating expenses	715	2,720,512	639,787	347,068	919,734	19,632	-	-	4,647,448
Change in net assets before non-controlling interest	320,652	(1,410,045)	428,830	(146,136)	(146,218)	63,686	-	(294,808)	(1,184,039)
Non-controlling interest in earnings of subsidiaries	-	911,028	91,645	-	(2,642)	-	-	-	1,000,031
Change in net assets	\$ 320,652	\$ (499,017)	\$ 520,475	\$ (146,136)	\$ (148,860)	\$ 63,686	\$ -	\$ (294,808)	\$ (184,008)

Rural Neighborhoods, Inc. and Its Affiliates

Consolidating Statement of Activities

Year ended December 31, 2011

	RNI	ECA	BCHC	LMHC	EHT	EHG	PCSH	Eliminations	Total
Rental revenue									
Potential rental revenue	\$ -	\$ 5,880,976	\$ 1,279,980	\$ 987,240	\$ 1,194,056	\$ -	\$ -	\$ -	\$ 9,342,252
Less: Vacancies and concessions	-	(753,116)	(107,596)	(282,306)	(184,710)	-	-	-	(1,327,728)
Total rental revenue	-	5,127,860	1,172,384	704,934	1,009,346	-	-	-	8,014,524
Other revenue									
Application fees	-	18,827	2,205	4,843	11,475	-	-	-	37,350
Laundry and vending	-	91,728	-	-	60,238	60,092	-	-	212,058
Interest income	29,974	37,581	2,201	1,670	805	475	-	-	72,706
Interest income - related party	19,526	4,000	-	-	-	-	-	(23,526)	-
Tenant charges	-	91,680	21,394	40,605	31,130	-	-	-	184,809
Property management fees	-	-	-	-	-	491,352	-	(491,352)	-
Development fees	1,340,562	-	-	-	-	-	-	(1,340,562)	-
Income from forgiveness of debt	150,000	-	-	-	572,919	-	-	-	722,919
Grant revenue	87,461	2,207,996	-	-	-	-	-	-	2,295,457
Miscellaneous revenue	12,000	120,604	5,884	16,376	2,902	44,116	-	-	201,882
Total other revenue	1,639,523	2,572,416	31,684	63,494	679,469	596,035	-	(1,855,440)	3,727,181
Expenses									
Operating and maintenance	(696)	1,489,750	210,117	113,990	232,834	17,760	-	-	2,063,755
Utilities	-	469,754	75,565	80,517	91,551	-	-	-	717,387
Project administration expenses	447,199	1,098,459	218,864	179,905	542,648	551,767	-	-	3,038,842
Management fees	-	406,953	91,500	53,850	79,120	-	-	(491,352)	140,071
Taxes and insurance	12,548	786,816	98,985	95,104	163,562	6,341	-	-	1,163,356
Bad debt expense	-	46,038	22,032	13,787	7,856	-	-	-	89,713
Debt forgiveness	5,500	-	-	-	-	-	-	(5,500)	-
Interest on note payable - affiliates	-	-	6,713	-	-	-	-	(6,713)	-
Interest on deferred development fee	-	50,428	-	-	-	-	-	(16,813)	33,615
Interest on mortgages payable	-	424,353	97,413	74,369	-	-	-	-	596,135
Total expenses	464,551	4,772,551	821,189	611,522	1,117,571	575,868	-	(520,378)	7,842,874
Income (loss) from operations	1,174,972	2,927,725	382,879	156,906	571,244	20,167	-	(1,335,062)	3,898,831
Non-operating expenses									
Investor services management fee	-	5,364	-	-	-	-	-	-	5,364
Depreciation expense	716	2,418,229	629,044	345,797	883,713	22,225	-	-	4,299,724
Amortization expense	-	58,629	6,490	2,400	19,720	-	-	-	87,239
Total non-operating expenses	716	2,482,222	635,534	348,197	903,433	22,225	-	-	4,392,327
Change in net assets before non-controlling interest	1,174,256	445,503	(252,655)	(191,291)	(332,189)	(2,058)	-	(1,335,062)	(493,496)
Non-controlling interest in earnings of subsidiaries	-	997,664	93,431	-	332,167	-	-	-	1,423,262
Change in net assets	\$ 1,174,256	\$ 1,443,167	\$ (159,224)	\$ (191,291)	\$ (22)	\$ (2,058)	\$ -	\$ (1,335,062)	\$ 929,766

Rural Neighborhoods, Inc.

Statements of Activities

Years ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total
Other revenue						
Interest income	\$ 37,423	\$ -	\$ 37,423	\$ 29,974	\$ -	\$ 29,974
Interest income - related party	20,240	-	20,240	19,526	-	19,526
Developer fees	294,808	-	294,808	1,340,562	-	1,340,562
Income from forgiveness of debt	150,000	-	150,000	150,000	-	150,000
Grant revenue	138,200	136,700	274,900	87,461	-	87,461
Miscellaneous revenue	14,433	-	14,433	12,000	-	12,000
Total other revenue	655,104	136,700	791,804	1,639,523	-	1,639,523
Expenses						
Operating and maintenance	-	-	-	(696)	-	(696)
Project administration expenses	440,258	-	440,258	447,199	-	447,199
Taxes and insurance	30,179	-	30,179	12,548	-	12,548
Debt forgiveness	-	-	-	5,500	-	5,500
Total expenses	470,437	-	470,437	464,551	-	464,551
Income from operations	184,667	136,700	321,367	1,174,972	-	1,174,972
Non-operating expenses						
Depreciation expense	715	-	715	716	-	716
Total non-operating expenses	715	-	715	716	-	716
Change in net assets	\$ 183,952	\$ 136,700	\$ 320,652	\$ 1,174,256	\$ -	\$ 1,174,256