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**COMMUNITY SOLUTIONS INTERNATIONAL, INC.
AND SUBSIDIARIES
D/B/A COMMUNITY SOLUTIONS, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

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Independent Auditors' Report

To the Board of Directors
Community Solutions International, Inc. and Subsidiaries
d/b/a Community Solutions, Inc.
New York, New York

We have audited the accompanying consolidated financial statements of Community Solutions International, Inc. and Subsidiaries, d/b/a Community Solutions, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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 auditors consider 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 the Organization as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
June 17, 2016

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
d/b/a COMMUNITY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 1,764,581	\$ 3,685,000
Restricted cash	2,659,645	2,217,313
Contributions receivable, net	5,584,699	4,175,137
Grants receivable	347,264	316,318
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	375,000	350,000
Replacement reserve	74,580	172,330
Operating reserve	99,368	99,368
Other assets	925,495	176,611
Due from NNPI	290,057	168,358
Due from funding source	444,900	-
Property and equipment, net	<u>6,242,586</u>	<u>3,367,056</u>
Total Assets	<u>\$ 18,808,175</u>	<u>\$ 14,727,491</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 538,897	\$ 341,780
Due to North Capitol Commons LP	-	559,738
Deferred grant revenue	150,368	-
Loans payable	<u>2,133,760</u>	<u>1,004,397</u>
Total liabilities	<u>2,823,025</u>	<u>1,905,915</u>
Net Assets		
Unrestricted net assets	5,431,585	3,747,832
Temporarily restricted net assets	<u>10,553,565</u>	<u>9,073,744</u>
Total net assets	<u>15,985,150</u>	<u>12,821,576</u>
Total Liabilities and Net Assets	<u>\$ 18,808,175</u>	<u>\$ 14,727,491</u>

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
d/b/a COMMUNITY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Changes in Unrestricted Net Assets		
Support and revenue:		
Governmental grants	\$ 2,042,115	\$ 1,348,145
Contributions	1,658,016	366,366
Consulting income	1,417,683	406,440
Development and management fees	325,000	601,581
Rental income	157,020	1,863
Other income	42,703	13,003
Program income	2,000	21,441
Net assets released from restrictions	<u>5,881,756</u>	<u>7,395,042</u>
Total unrestricted support and revenue	<u>11,526,293</u>	<u>10,153,881</u>
Expenses:		
Program services:		
National Campaigns	2,539,834	2,015,126
Brownsville Partnership	1,853,274	1,942,282
Knowledge Sharing	1,811,388	531,819
Hartford Community Partnership	762,395	411,790
Inspiring Places	652,105	956,092
519 Rockaway	521,219	228,813
Swift Factory	<u>262,481</u>	<u>-</u>
Total program services	8,402,696	6,085,922
Management and general	790,854	805,068
Fundraising	<u>648,990</u>	<u>522,822</u>
Total expenses	<u>9,842,540</u>	<u>7,413,812</u>
Increase in unrestricted net assets	<u>1,683,753</u>	<u>2,740,069</u>
Changes in Temporarily Restricted Net Assets		
Support and revenue:		
Contributions	7,361,577	11,581,193
Net assets released from restrictions	<u>(5,881,756)</u>	<u>(7,395,042)</u>
Increase in temporarily restricted net assets	<u>1,479,821</u>	<u>4,186,151</u>
Change in Net Assets	3,163,574	6,926,220
Net Assets - Beginning of Year	<u>12,821,576</u>	<u>5,895,356</u>
Net Assets - End of Year	<u>\$ 15,985,150</u>	<u>\$ 12,821,576</u>

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
d/b/a COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services							Support Services			Grand Total	
	National Campaigns	Brownsville Partnership	Knowledge Sharing	Hartford			Total	Management and Fund-raising		Total		
				Community Partnership	Inspiring Places	519 Rockaway		Swift Factory	General			Fund-raising
Personnel services	\$ 1,704,239	\$ 1,036,461	\$ 1,400,652	\$ 463,320	\$ 486,745	\$ 53,063	\$ -	\$ 5,144,480	\$ 208,783	\$ 349,645	\$ 558,428	\$ 5,702,908
Professional services	298,407	471,028	174,147	132,620	155,026	88,301	176,242	1,495,771	259,957	62,851	322,808	1,818,579
Occupancy	24,208	40,830	-	22,803	-	45,897	35,251	168,989	85,914	159,204	245,118	414,107
Travel and conference	220,717	5,945	109,876	5,473	4,328	-	-	346,339	56,934	-	56,934	403,273
Program expenses	165,335	102,000	28,776	51,612	1,265	7,286	2,127	358,401	-	-	-	358,401
Building management	-	-	-	-	-	214,183	12,000	226,183	-	-	-	226,183
Subcontract expenses	-	104,918	65,000	75,000	-	-	-	244,918	-	-	-	244,918
Communication	31,802	20,464	10,290	6,086	3,230	2,986	-	74,858	41,307	14,086	55,393	130,251
Insurance	-	-	-	-	-	1,178	34,937	36,115	27,173	45,506	72,679	108,794
Office supplies and expenses	4,655	8,938	1,824	1,673	245	6,029	-	23,364	63,048	8,658	71,706	95,070
Staff training and development	52,500	4,934	14,088	2,500	1,220	-	-	75,242	2,886	4,833	7,719	82,961
Advertising and marketing	32,418	17,333	489	194	-	-	-	50,434	189	316	505	50,939
Equipment purchases and rental	832	21,926	4,399	-	-	1,614	-	28,771	8,442	3,891	12,333	41,104
Printing and postage	4,626	13,346	1,801	1,064	46	229	-	21,112	14,532	-	14,532	35,644
Depreciation	-	-	-	-	-	99,843	-	99,843	2,960	-	2,960	102,803
Miscellaneous expenses	95	5,151	46	50	-	610	1,924	7,876	18,729	-	18,729	26,605
Total	\$ 2,539,834	\$ 1,853,274	\$ 1,811,388	\$ 762,395	\$ 652,105	\$ 521,219	\$ 262,481	\$ 8,402,696	\$ 790,854	\$ 648,990	\$ 1,439,844	\$ 9,842,540

The accompanying notes are an integral part of the consolidated financial statements

**COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
d/b/a COMMUNITY SOLUTIONS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Services						Support Services			Grand Total	
	National Campaigns	Brownsville Partnership	Knowledge Sharing	Hartford			Management and Fund-raising		Total		
				Community Partnership	Inspiring Places	519 Rockaway	General	Fund-raising			
Personnel services	\$ 1,494,789	\$ 1,262,903	\$ 373,385	\$ 282,637	\$ 511,711	\$ -	\$ 3,925,425	\$ 216,614	\$ 228,001	\$ 444,615	\$ 4,370,040
Professional services	236,956	290,726	51,802	47,508	411,129	189,598	1,227,719	264,300	76,078	340,378	1,568,097
Occupancy	23,373	61,829	-	17,384	-	14,902	117,488	126,479	127,482	253,961	371,449
Travel and conference	110,269	35,597	63,251	7,213	12,135	-	228,465	60,106	32,507	92,613	321,078
Program expenses	31,956	65,512	6,134	34,732	11,862	810	151,006	-	-	-	151,006
Subcontract expenses	-	111,609	25,000	-	-	-	136,609	-	-	-	136,609
Communication	52,821	22,948	3,657	7,257	4,393	437	91,513	31,019	12,457	43,476	134,989
Insurance	-	-	-	-	-	10,452	10,452	19,995	21,046	41,041	51,493
Office supplies and expenses	3,051	16,446	1,986	2,265	400	46	24,194	32,212	5,843	38,055	62,249
Staff training and development	24,987	12,202	1,742	1,780	370	-	41,081	9,982	10,507	20,489	61,570
Advertising and marketing	12,627	800	1,049	80	-	-	14,556	348	367	715	15,271
Equipment purchases and rental	10,605	31,229	1,506	4,586	2,832	-	50,758	17,481	2,504	19,985	70,743
Printing and postage	5,593	28,133	2,262	2,972	1,097	424	40,481	12,336	-	12,336	52,817
Depreciation	-	-	-	-	-	-	-	2,190	-	-	2,190
Miscellaneous expenses	8,099	2,348	45	3,376	163	12,144	26,175	12,006	6,030	18,036	44,211
	<u>\$ 2,015,126</u>	<u>\$ 1,942,282</u>	<u>\$ 531,819</u>	<u>\$ 411,790</u>	<u>\$ 956,092</u>	<u>\$ 228,813</u>	<u>6,085,922</u>	<u>\$ 805,068</u>	<u>\$ 522,822</u>	<u>\$ 1,325,700</u>	<u>\$ 7,413,812</u>

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES
d/b/a COMMUNITY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,163,574	\$ 6,926,220
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	102,803	2,190
(Increase) decrease in operating assets:		
Contributions receivable, net	(1,409,562)	(1,307,480)
Grants receivable	(30,946)	(5,621)
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	(25,000)	(50,000)
Other assets	(748,884)	(93,962)
Due from NNPI	(121,699)	42,958
Due from funding source	(444,900)	358,353
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	197,117	68,994
Due to North Capitol Commons LP	(559,738)	559,738
Deferred grant revenue	150,368	(200,000)
Net cash provided by operating activities	<u>273,133</u>	<u>6,301,390</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(2,978,333)</u>	<u>(2,942,856)</u>
Net cash used in investing activities	<u>(2,978,333)</u>	<u>(2,942,856)</u>
Cash Flows from Financing Activities		
Proceeds from loans payable	1,140,715	1,004,397
Repayments on loans payable	(11,352)	(158,353)
(Payments to) proceeds from reserve accounts	97,750	(271,698)
Net cash provided by financing activities	<u>1,227,113</u>	<u>574,346</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,478,087)	3,932,880
Cash and Cash Equivalents - Beginning of Year	<u>5,902,313</u>	<u>1,969,433</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,424,226</u>	<u>\$ 5,902,313</u>

The accompanying notes are an integral part of the consolidated financial statements

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Community Solutions International, Inc. and Subsidiaries, d/b/a Community Solutions, Inc. (CSI) is a not-for-profit organization with the primary mission to strengthen communities to end homelessness by building partnerships, sharing innovations and connecting vulnerable people to homes and support.

In 2015, CSI changed their name from Common Ground Community Solutions, Inc. d/b/a Community Solutions, Inc., to Community Solutions International, Inc. d/b/a Community Solutions, Inc.

CS North Capitol Commons LLC (CSNCC) with CSI as the sole member holds a noncontrolling, 51% interest in North Capitol Commons GP, LLC, which holds a .009% interest in North Capitol Commons LP (North Capitol Project). The financial statements reflect the activity of CSNCC, however the North Capitol Project does not meet the requirements for consolidation. See Note 10 for further discussion regarding the North Capitol Project.

Community Solutions 519 Rockaway Ave, Inc., (CS Rockaway) a wholly owned subsidiary of CSI, consists of a 14,000 square foot building and lot which houses the administrative offices of CSI and is a rental facility of space to tenants.

Swift Factory LLC (Swift) was organized with CSI as its sole member to hold title and participate in a redevelopment project at 10 and 60 Love Lane in Hartford. These properties were formerly held by a related party, Northeast Neighborhood Partners, Inc. (NNPI). During 2015, the properties were transferred to Swift by NNPI and the redevelopment projects commenced. There was no activity within Swift in 2014.

The consolidated financial statements as of December 31, 2015 and 2014, include the activities of CSI, CS Rockaway, CSNCC and Swift, collectively the Organization.

Basis of Accounting and Presentation

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions.

Unrestricted Net Assets

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Organization to expend the income earned thereon. There are no permanently restricted net assets at December 31, 2015 and 2014.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 certain amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Restricted cash is limited in use to payment of costs related to North Capitol Project, which is further described in Note 10. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Property and Equipment

Property and equipment are recorded at cost. Major renewals and improvements in excess of \$5,000 are capitalized, while replacements, maintenance and repairs that do not extend the lives of the assets are charged directly to expense as incurred. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gains and losses are included in the results of operations.

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

Buildings and improvements	33.5 years
Furniture and fixtures	5 years
Computer equipment and software	3 years

Grants and Contracts

Governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Organization recognizes donated services at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. No donated services have been recognized in the accompanying consolidated financial statements in accordance with applicable accounting standards.

Income Taxes

CSI and CS Rockaway are exempt from federal and state income taxes as public charities under Section 501(c)(3) and (2) of the Internal Revenue Code, respectively. CSNCC and Swift are disregarded entities for federal and state income taxes and are included in the CSI tax return.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform with the current year's presentation.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through June 17, 2016, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 4,663,689	\$ 2,983,356
Computers and equipment	14,800	14,800
Land	371,800	371,800
Construction in progress	1,298,000	-
	<u>6,348,289</u>	<u>3,369,956</u>
Less accumulated depreciation	<u>105,703</u>	<u>2,900</u>
Property and Equipment, Net	<u>\$ 6,242,586</u>	<u>\$ 3,367,056</u>

Depreciation expense was \$102,803 and \$2,190 for the years ended December 31, 2015 and 2014, respectively.

In August 2014, CS Rockaway completed the acquisition of a 14,000 square foot building at 519 Rockaway Avenue, Brooklyn, New York. Renovations to the building were completed in March 2015 and placed into service.

In conjunction with the transfer of properties from NNPI to Swift as noted in Note 10, construction in progress as of December 31, 2015, relates to environmental remediation costs incurred to date on those properties. A completion date for the project has not yet been determined.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable as of December 31, 2015 and 2014, are expected to be collected as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 3,771,365	\$ 3,072,941
Receivable in one to five years	<u>1,916,667</u>	<u>1,153,329</u>
	5,688,032	4,226,270
Less discount to net present value	<u>103,333</u>	<u>51,133</u>
Net Contributions Receivable	<u>\$ 5,584,699</u>	<u>\$ 4,175,137</u>

Contributions receivable in more than one year are discounted at 2%. Management has determined that an allowance for uncollectible accounts for contributions receivable is not necessary as of December 31, 2015 and 2014. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS PAYABLE

Loans payable at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
On August 12, 2014, CS Rockaway entered into a loan agreement with the Low Income Investment Fund (LIIF) to assist in the acquisition and renovation of 519 Rockaway Avenue. CS Rockaway may draw down funds on this loan up to \$1,320,000. The loan bears interest at 5.75% and is secured by the building. CS Rockaway is currently paying interest on this loan, and upon completion of the building renovations, principal repayments will commence. In conjunction with this loan, CS Rockaway is required to maintain a replacement reserve and an operating reserve.	\$ 1,320,000	\$ 1,004,397
In conjunction with the transfer of property from NNPI to Swift as noted in Note 10, NNPI transferred to Swift a loan sourced from the Connecticut Department of Economic and Community Development for the purpose of environmental work, stabilization work, roof repairs and other needed expenditures to redevelop the property. Swift may draw down funds on this loan up to \$1,000,000. The loan bears interest at 1% and is collateralized by the assignment of leases, rents and permits from Swift to NNPI. Swift is currently paying interest on this loan, and upon completion of redevelopment, principal repayments will commence. Unamortized loan closing costs as of December 31, 2015 was \$4,750.	805,908	-
In conjunction with the transfer of property from NNPI to Swift as noted in Note 10, NNPI transferred a loan obtained from the Connecticut Department of Economic Development to Swift. The original note payable was for \$45,000. The balance transferred in 2015 to Swift was \$21,647. The loan was utilized for environmental assessment. The loan bears interest at a rate of 3% for a term of 5 years. Principal and interest payments were deferred for the first 18 months. Monthly principal and interest payments are in the amount of \$988. This loan is expected to be repaid during 2016.	12,602	-
	<u>2,138,510</u>	<u>1,004,397</u>
Less unamortized loan closing costs	<u>4,750</u>	<u>-</u>
Notes Payable, Less Loan Closing Costs	<u>\$ 2,133,760</u>	<u>\$ 1,004,397</u>

Loan closing costs are legal fees and other costs incurred in obtaining financing that are amortized on a straight-line basis over the term of the related debt. Loan closing costs are presented as a direct deduction of the carrying amount of the debt. Amortization of the loan closing costs is included in interest expense.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or future periods as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Purpose restrictions:		
North Capitol Project	\$ 4,000,000	\$ 4,000,000
Brownsville Partnership	2,457,409	2,171,675
National Campaigns	1,079,082	899,392
519 Rockaway	966,668	564,710
Knowledge Sharing	872,500	153,333
Swift Factory	204,560	-
Inspiring Places	272,606	310,355
Hartford Community Partnership	225,740	225,350
Time restrictions	475,000	748,929
Total Temporarily Restricted Net Assets	<u>\$ 10,553,565</u>	<u>\$ 9,073,744</u>

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by satisfying the following time and purpose restrictions during the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Purpose restrictions:		
Brownsville Partnership	\$ 1,660,030	\$ 1,638,573
National Campaigns	1,262,309	1,503,425
519 Rockaway	938,531	2,625,631
Hartford Community Partnership	600,502	455,496
Inspiring Places	442,854	560,163
Knowledge Sharing	165,833	126,667
Time restrictions	811,697	485,087
Total Temporarily Restricted Net Assets	<u>\$ 5,881,756</u>	<u>\$ 7,395,042</u>

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization maintains a defined contribution retirement plan that is available to all full-time employees who have attained age 21. The plan provides for voluntary employee contributions, and the Organization may elect to match 100% of employee contributions up to 3% of their gross salary after a minimum of 1 year of service. Organization contributions totaled \$67,980 and \$37,503 as of December 31, 2015 and 2014, respectively.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - OPERATING LEASES

The Organization leases equipment and office spaces under multiple operating leases that run through June 2023. Rent expense for these leases amounted to \$262,295 and \$280,558 for the years ended December 31, 2015 and 2014, respectively.

In June 2013, the Organization entered into an operating lease for new office space that expires in June 2023. The lease requires escalating monthly payments ranging from \$15,664 to \$20,433 over the term of the lease. The Organization recognizes rent expensed on a straight-line basis over the respective lease term of the underlying agreement. Rent expense under this method was \$217,031 for the years ended December 31, 2015 and 2014.

Future minimum lease payments under leases extending beyond one year from the statement of financial position date are as follows:

Year Ending December 31

2016	\$	204,924
2017		211,324
2018		221,185
2019		226,646
2020		232,269
Thereafter		<u>604,574</u>
Total	\$	<u>1,700,922</u>

NOTE 9 - LEASE INCOME

In March 2015, the Organization entered into an agreement as the lessor with a nonprofit organization to lease space at their 519 Rockaway Avenue location for a term of two years. The lease calls for annual rent payments of \$74,790 for the first year and \$77,034 for the second year. The Organization recognizes rent income on a straight-line basis over the respective lease term of the underlying agreement. Rent income under this method was \$63,260 for the year ending December 31, 2015.

The Organization entered into an agreement as the lessor with a nonprofit organization in March 2015 to lease space at their 519 Rockaway Avenue location for a term of ten years. The lease requires escalating monthly payments ranging from \$8,079 to \$10,541 over the term of the lease. The Organization recognizes rent income on a straight-line basis over the respective lease term of the underlying agreement. Rent income under this method was \$92,619 for the year ending December 31, 2015.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future annual lease income in subsequent years is as follows:

Year Ending December 31

2016	\$	176,034
2017		115,194
2018		105,426
2019		108,588
2020		111,846
Thereafter		<u>614,888</u>
Total	\$	<u>1,231,976</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

Northeast Neighborhood Partners, Inc. (NNPI)

During the years ended December 31, 2015 and 2014, the Organization paid expenses for Northeast Neighborhood Partners Inc. (NNPI) from advance payments received by CSI for NNPI. In addition, certain employees of CSI performed work for NNPI throughout the year. The portion of the employees' salaries allocated to the work performed is charged to NNPI throughout the year. Amounts due to CSI from NNPI related to these transactions were \$290,057 and \$168,358 as of December 31, 2015 and 2014, respectively. Lastly, the President of the Organization is the Secretary of the Board of Directors of NNPI as of December 31, 2015 and 2014.

In August 2014, CSI approved an additional loan of \$200,000 to NNPI for the operation and maintenance of NNPI's 370 Asylum property. During the years ended December 31, 2015 and 2014, \$25,000 and \$50,000, respectively, were advanced to NNPI with respect to this loan. Additionally, NNPI owes CSI \$300,000 related to loan advances from prior years. The total loan balance outstanding as of December 31, 2015 and 2014, was \$375,000 and \$350,000, respectively.

In 2015, NNPI transferred property located at 10 and 60 Love Lane in Hartford, Connecticut, with a book value of \$1,208,521, to Swift.

Community Solutions 519 Rockaway Avenue, Inc. (CS Rockaway)

During the year ended December 31, 2015, CSI entered into a lease agreement with CS Rockaway for one year. This lease will automatically extend for up to 20 successive 1 year periods unless terminated by either party with 30 days written notice. Rental income and expense of \$102,633 was eliminated within the consolidated statement of activities for the year ended December 31, 2015, related to this transaction.

North Capital Project

The North Capitol Project (Project) is a Washington, D.C., residential project consisting of a new building with a total of 124 low-income housing tax unit apartments intended for use by veterans of the U.S. military. The Project is expected to have a total cost of approximately \$32,650,000, and will be funded by the issuance of short-term tax exempt bonds, equity investments, other federal and local government funding, and two sponsor loans from CSI in the aggregate amount of \$9,270,000, more fully described below. The Project is expected to be completed in 2016.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2014, CSNCC as co-managing member, along with an unrelated party, of North Capitol Commons GP LLC, the GP of North Capitol Commons, LP, entered into a series of agreements related to the Project as follows:

- North Capitol Commons LP Amended and Restated Agreement of Limited Partnership
- North Capitol Commons GP LLC Initial Operating Agreement and Amended and Restated Agreement
- Purchase Option and Right of First Refusal Agreement
- Deed of Trust, Security Agreement and Assignment of Leases and Rents

On August 28, 2014, CSI entered into two loan agreements in the amount of \$150,000 (1st Sponsor loan) and \$9,120,000 (2nd Sponsor loan) to provide permanent loan proceeds of \$9,270,000 to assist in funding the Project. To date, CSI has secured \$4,000,000 of private and corporate contributions, \$4,080,000 of Department of General Services (DGS) funds and \$1,190,000 from the Housing Production Trust Fund (HPTF). As of December 31, 2015 and 2014, CSI has recorded the private and corporate contributions of \$4,000,000 as temporarily restricted net assets, pending further delivery to the Project. With respect to the DGS funds, CSI has received \$3,386,348 and \$693,652 of these funds during the years ended December 31, 2015 and 2014, respectively. Based upon remissions to the Project to date exceeding receipts, CSI has requested a drawdown of HPTF funds in the amount of \$444,900. CSI remitted \$133,914 to the Project during the year ended December 31, 2014.

The 2nd Sponsor loan provides that CSI enter into pledge and assignment agreement assigning Chase Bank, Trustee for the short-term tax exempt bonds funding of the Project, a security interest in certain funds and agreeing to certain conditions for the release of the funds. Such funds, in the amount of \$2,659,645 and \$2,217,313, are recorded as restricted cash on the consolidated statements of financial position as of December 31, 2015 and 2014, respectively.

In conjunction with the \$9,270,000 loan agreement, CSI received an origination fee of \$91,200. Such amount has been recorded as development and management fees on the consolidated statements of activities for the year ended December 31, 2014.

During 2014, North Capitol Commons LP reimbursed CSI \$556,919 for previously advanced predevelopment funds.

CSI, along with an unrelated entity, are co-developers of the Project. As such, CSI is entitled to a developer fee of \$1,290,000, payable in four installments as follows: \$276,235 was paid at initial closing, \$300,000 was paid upon receipt of a grant from the Federal Home Loan Bank of Pittsburgh under the Affordable Housing Program, \$386,234 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Third Capital Contribution, \$15,361 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Fourth Capital Contribution, and the last payment of \$312,170 will be paid upon satisfaction of the conditions to the payment of the Limited Partner of its Fifth Capital Contribution, of which \$237,531 is anticipated to be deferred and payable out of net cash flow pursuant to the partnership agreement. During the years ended December 31, 2015 and 2014, CSI received \$300,000 and \$276,235, respectively, of such developer fees, which are recorded as development and management fees on the statement of activities.

COMMUNITY SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES D/B/A COMMUNITY SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On August 28, 2014, CSI entered into a Purchase Option and Right of First Refusal Agreement with North Capitol Commons LP and other unrelated parties.

Grant of Option

North Capitol Commons LP grants to CSI an option to purchase the real estate, fixtures and personal property comprising the Project or associated with the physical operations thereof, owned by North Capitol Commons LP at the time of purchase, after the close of the 15 year compliance period for the low-income housing tax credit for the Project (the Compliance Period), on the terms and conditions set forth in the agreement.

Grant of Refusal Right

In the event that North Capitol Commons LP receives a bona fide offer to purchase the Project, CSI shall have a right of first refusal to purchase the Property (the Refusal Right) after the close of the Compliance Period, on the terms and conditions set forth in the agreement.

On August 28, 2014, CSI entered into a Leasehold Deed of Trust, Security Agreement and Assignment of Leases and Rents with North Capitol Commons LP. Under the terms of said agreement, North Capitol Commons LP (the Borrower) irrevocably conveyed its right, title and interest in the leases of said property to CSI as collateral for the guaranteed performance by North Capitol Commons LP.