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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
May 29, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 3,500,713	\$ 1,764,581
Restricted cash	4,169,118	2,659,645
Contributions receivable, net	2,767,559	5,584,699
Grants receivable	103,506	347,264
Other receivables	938,029	663,010
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	370,000	375,000
Replacement reserve	74,580	74,580
Operating reserve	99,368	99,368
Other assets	143,362	111,933
Due from NNPI	471,842	427,933
Due from North Capitol Commons LP	-	444,900
Due from Made in Brownsville	48,646	12,676
Property and equipment, net	<u>6,417,487</u>	<u>6,242,586</u>
Total Assets	\$ <u>19,104,210</u>	\$ <u>18,808,175</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 885,855	\$ 538,897
Due to North Capitol Commons LP	1,065,269	-
Deferred grant revenue	81,539	150,368
Loans payable	<u>2,053,021</u>	<u>2,133,760</u>
Total liabilities	<u>4,085,684</u>	<u>2,823,025</u>
Net Assets		
Unrestricted net assets	5,633,673	5,431,585
Temporarily restricted net assets	<u>9,384,853</u>	<u>10,553,565</u>
Total net assets	<u>15,018,526</u>	<u>15,985,150</u>
Total Liabilities and Net Assets	\$ <u>19,104,210</u>	\$ <u>18,808,175</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Support and revenue:		
Consulting income	\$ 1,170,688	\$ 1,417,683
Governmental grants	1,033,826	2,042,115
Contributions	814,487	1,658,016
Development and management fees	431,350	325,000
Rental income	206,930	157,020
Other income	77,021	42,703
Program income	15,128	2,000
Net assets released from restrictions	<u>5,527,836</u>	<u>5,881,756</u>
Total unrestricted support and revenue	<u>9,277,266</u>	<u>11,526,293</u>
Expenses:		
Program services:		
National Campaigns	2,697,770	2,539,834
Knowledge Sharing	1,619,481	1,811,388
Inspiring Places	1,045,897	652,105
Brownsville Partnership	834,690	1,853,274
Hartford Community Partnership	465,489	762,395
519 Rockaway	445,316	521,219
Swift Factory	196,908	262,481
Fiscal sponsorships	<u>124,250</u>	<u>-</u>
Total program services	7,429,801	8,402,696
Management and general	1,095,545	790,854
Fundraising	<u>549,832</u>	<u>648,990</u>
Total expenses	<u>9,075,178</u>	<u>9,842,540</u>
Increase in unrestricted net assets	<u>202,088</u>	<u>1,683,753</u>
Changes in Temporarily Restricted Net Assets		
Support and revenue:		
Contributions	4,359,124	7,361,577
Net assets released from restrictions	<u>(5,527,836)</u>	<u>(5,881,756)</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,168,712)</u>	<u>1,479,821</u>
Change in Net Assets	(966,624)	3,163,574
Net Assets - Beginning of Year	<u>15,985,150</u>	<u>12,821,576</u>
Net Assets - End of Year	<u>\$ 15,018,526</u>	<u>\$ 15,985,150</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, 2016

	Program Services								Support Services			Grand Total	
	National Campaigns	Knowledge Sharing	Inspiring Places	Brownsville Partnership	Hartford			Fiscal Sponsorships	Total	Management and Fund-raising			
					Community Partnership	519 Rockaway	Swift Factory			General	Total		
Personnel services	\$ 1,848,920	\$ 1,350,352	\$ 590,941	\$ 704,580	\$ 346,121	\$ 120,516	\$ 10,344	\$ -	\$ 4,971,774	\$ 501,095	\$ 327,850	\$ 828,945	\$ 5,800,719
Professional services	385,168	68,761	239,637	72,908	78,471	2,291	113,058	77,544	1,037,838	260,218	54,712	314,930	1,352,768
Occupancy	25,271	-	-	11,262	12,930	42,107	41,279	3,840	136,689	136,844	126,238	263,082	399,771
Travel and conference	229,038	71,797	1,587	988	2,892	37	664	9,098	316,101	39,200	-	39,200	355,301
Subcontract expenses	25,053	44,400	180,000	-	-	-	-	-	249,453	-	-	-	249,453
Program expenses	61,018	75,466	25,116	11,259	15,378	961	-	2,242	191,440	-	-	-	191,440
Building management	-	-	-	-	-	142,760	-	-	142,760	-	-	-	142,760
Communication	20,016	6,692	3,986	12,421	4,492	3,868	-	7,428	58,903	51,728	11,991	63,719	122,622
Insurance	-	-	-	-	-	-	29,820	-	29,820	26,163	17,117	43,280	73,100
Advertising and marketing	65,705	-	-	1,127	-	-	-	46	66,878	1,770	1,158	2,928	69,806
Staff training and development	29,217	862	2,600	924	-	1,015	-	-	34,618	6,824	4,465	11,289	45,907
Office supplies and expenses	2,681	536	251	5,296	2,426	2,110	-	19,082	32,382	17,414	2,304	19,718	52,100
Equipment purchases and rental	2,912	152	1,189	8,456	2,779	450	-	3,901	19,839	10,073	3,997	14,070	33,909
Printing and postage	2,771	412	335	815	-	-	448	969	5,750	20,430	-	20,430	26,180
Depreciation	-	-	-	-	-	123,479	-	-	123,479	2,960	-	2,960	126,439
Miscellaneous expenses	-	51	255	4,654	-	5,722	1,295	100	12,077	20,826	-	20,826	32,903
Total	\$ 2,697,770	\$ 1,619,481	\$ 1,045,897	\$ 834,690	\$ 465,489	\$ 445,316	\$ 196,908	\$ 124,250	\$ 7,429,801	\$ 1,095,545	\$ 549,832	\$ 1,645,377	\$ 9,075,178

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	Knowledge Sharing	Inspiring Places	Brownsville Partnership	Hartford Community Partnership	519 Rockaway	Swift Factory	Total	Management and General	Fund-raising		Total
Personnel services	\$ 1,704,239	\$ 1,400,652	\$ 486,745	\$ 1,036,461	\$ 463,320	\$ 53,063	\$ -	\$ 5,144,480	\$ 208,783	\$ 349,645	\$ 558,428	\$ 5,702,908
Professional services	298,407	174,147	155,026	471,028	132,620	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	109,876	4,328	5,945	5,473	-	-	346,339	56,934	-	56,934	403,273
Subcontract expenses	-	65,000	-	104,918	75,000	-	-	244,918	-	-	-	244,918
Program expenses	165,335	28,776	1,265	102,000	51,612	7,286	2,127	358,401	-	-	-	358,401
Building management	-	-	-	-	-	214,183	12,000	226,183	-	-	-	226,183
Communication	31,802	10,290	3,230	20,464	6,086	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
Advertising and marketing	32,418	489	-	17,333	194	-	-	50,434	189	316	505	50,939
Staff training and development	52,500	14,088	1,220	4,934	2,500	-	-	75,242	2,886	4,833	7,719	82,961
Office supplies and expenses	4,655	1,824	245	8,938	1,673	6,029	-	23,364	63,048	8,658	71,706	95,070
Equipment purchases and rental	832	4,399	-	21,926	-	1,614	-	28,771	8,442	3,891	12,333	41,104
Printing and postage	4,626	1,801	46	13,346	1,064	229	-	21,112	14,532	-	14,532	35,644
Depreciation	-	-	-	-	-	99,843	-	99,843	2,960	-	2,960	102,803
Miscellaneous expenses	95	46	-	5,151	50	610	1,924	7,876	18,729	-	18,729	26,605
Total	\$ 2,539,834	\$ 1,811,388	\$ 652,105	\$ 1,853,274	\$ 762,395	\$ 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 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (966,624)	\$ 3,163,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	126,439	102,803
(Increase) decrease in operating assets:		
Contributions receivable, net	2,817,140	(1,409,562)
Grants receivable	243,758	(30,946)
Other receivables	(275,019)	(686,051)
Note receivable - Northeast Neighborhood Partners Inc. (NNPI)	5,000	(25,000)
Other assets	(31,429)	(53,479)
Due from NNPI	(43,909)	(121,699)
Due from North Capitol Commons LP	444,900	(444,900)
Due from Made in Brownsville	(35,970)	(9,354)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	346,958	197,117
Due to North Capitol Commons LP	1,065,269	(559,738)
Deferred grant revenue	(68,829)	150,368
Net cash provided by operating activities	<u>3,627,684</u>	<u>273,133</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(301,340)</u>	<u>(2,978,333)</u>
Net cash used in investing activities	<u>(301,340)</u>	<u>(2,978,333)</u>
Cash Flows from Financing Activities		
Proceeds from loans payable	55,613	1,140,715
Repayments on loans payable	(136,352)	(11,352)
Proceeds from reserve accounts	-	97,750
Net cash provided by (used in) financing activities	<u>(80,739)</u>	<u>1,227,113</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,245,605	(1,478,087)
Cash and Cash Equivalents - Beginning of Year	<u>4,424,226</u>	<u>5,902,313</u>
Cash and Cash Equivalents - End of Year	<u>\$ 7,669,831</u>	<u>\$ 4,424,226</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 consolidated 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.

The consolidated financial statements as of December 31, 2016 and 2015, 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, 2016 and 2015.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of consolidated 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 consolidated 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

Donated Services

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. As of December 31, 2016, donated professional services in the amount of \$79,538 have been recognized as contribution revenue as well as management and general expense within the accompanying consolidated statements of activities in accordance with applicable accounting standards. There were no donated professional services as of December 31, 2015.

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 2015 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 May 29, 2017, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 4,259,416	\$ 4,013,689
Computers and equipment	14,800	14,800
Land	371,800	371,800
Construction in progress	<u>2,003,613</u>	<u>1,948,000</u>
	6,649,629	6,348,289
Less accumulated depreciation	<u>232,142</u>	<u>105,703</u>
Property and Equipment, Net	<u>\$ 6,417,487</u>	<u>\$ 6,242,586</u>

Depreciation expense was \$126,439 and \$102,803 for the years ended December 31, 2016 and 2015, respectively.

In conjunction with the transfer of properties from NNPI to Swift as noted in Note 10, construction in progress as of December 31, 2016 and 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, 2016 and 2015, are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 1,715,752	\$ 3,771,365
Receivable in one to five years	1,109,000	1,916,667
	<u>2,824,752</u>	<u>5,688,032</u>
Less discount to net present value	<u>57,193</u>	<u>103,333</u>
Net Contributions Receivable	<u>\$ 2,767,559</u>	<u>\$ 5,584,699</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, 2016 and 2015. 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, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</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 only paid interest on this loan during 2015 and upon completion of the building renovations in 2016, principal repayments commenced. Principal is paid annually in the amount of \$124,000. Interest continues to be paid monthly. In conjunction with this loan, CS Rockaway is required to maintain a replacement reserve and an operating reserve.	\$ 1,196,000	\$ 1,320,000
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, 2016 and 2015, was \$4,500 and \$4,750, respectively.	861,521	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 was fully repaid during 2016.	-	12,602
	<u>2,057,521</u>	<u>2,138,510</u>
Less unamortized loan closing costs	<u>4,500</u>	<u>4,750</u>
Loans Payable, Net	\$ <u>2,053,021</u>	\$ <u>2,133,760</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
North Capitol Project	\$ 4,000,000	\$ 4,000,000
Brownsville Partnership	1,991,944	2,457,409
National Campaigns	1,516,869	1,079,082
519 Rockaway	1,045,861	966,668
Inspiring Places	212,254	272,606
Swift Factory	133,482	204,560
Hartford Community Partnership	133,324	225,740
Fiscal sponsorships	24,981	-
Knowledge Sharing	-	872,500
Time restrictions	<u>326,138</u>	<u>475,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,384,853</u>	<u>\$ 10,553,565</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
National Campaigns	\$ 2,055,214	\$ 1,262,309
Brownsville Partnership	966,797	1,660,030
Inspiring Places	582,613	442,854
Hartford Community Partnership	468,917	600,502
519 Rockaway	251,449	938,531
Swift Factory	121,078	-
Fiscal sponsorships	87,768	-
Knowledge Sharing	8,000	165,833
Time restrictions	<u>986,000</u>	<u>811,697</u>
Total Net Assets Released from Restrictions	<u>\$ 5,527,836</u>	<u>\$ 5,881,756</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 \$90,839 and \$67,980 as of December 31, 2016 and 2015, 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 \$255,759 and \$262,295 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015.

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

Year Ending December 31

2017	\$	215,824
2018		221,185
2019		226,646
2020		232,269
2021		238,033
Thereafter		<u>367,406</u>
Total	\$	<u>1,501,363</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 \$75,912 and \$63,260 for the years ended December 31, 2016 and 2015, respectively.

The Organization also entered into an agreement as the lessor with a nonprofit organization to lease additional space at their 519 Rockaway Avenue location for a term expiring in February 2025. 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 \$111,142 and \$92,619 for the years ended December 31, 2016 and 2015, respectively.

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

2017	\$	115,194
2018		105,426
2019		108,588
2020		111,846
2021		115,201
Thereafter		<u>387,841</u>
Total	\$	<u>944,096</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

Northeast Neighborhood Partners, Inc. (NNPI)

During the years ended December 31, 2016 and 2015, 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 \$471,842 and \$427,933 as of December 31, 2016 and 2015, respectively. Lastly, the President of the Organization is the Secretary of the Board of Directors of NNPI as of December 31, 2016 and 2015.

In August 2014, CSI approved an additional loan of \$200,000 to NNPI for the operation and maintenance of NNPI's 370 Asylum property. In October 2016, CSI advanced the remaining available balance of \$125,000 under this loan, as well as an additional advance of \$50,000. In addition to this, NNPI owes CSI \$300,000 related to loan advances from prior years. Repayments by NNPI to CSI on the cumulative balance of all loans during 2016 totaled \$180,000. The total loan balance outstanding as of December 31, 2016 and 2015, is \$370,000 and \$375,000, 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 \$153,950 and \$102,633 was eliminated within the consolidated statement of activities for the years ended December 31, 2016 and 2015, respectively, related to this transaction.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2017.

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 Department of Housing and Community Development (DHCD). For the years ended December 31, 2016 and 2015, CSI recorded the private and corporate contributions of \$4,000,000 as temporarily restricted net assets, pending further delivery to the Project. DGS funds in the amount of \$4,080,000 have been received by CSI and remitted to the Project as of December 31, 2016. As of December 31, 2016 and 2015, no amounts were drawn down from the DHCD funds.

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 \$4,169,118 and \$2,659,645, are recorded as restricted cash on the consolidated statements of financial position as of December 31, 2016 and 2015, respectively.

The Project is the recipient of a \$7,000,000 HOME loan from DHCD. As of December 31, 2015, remissions to the Project exceeded receipts and CSI requested an additional drawdown on these funds in the amount of \$444,900. During 2016, CSI received \$3,450,996 from DHCD and remitted a total of \$1,940,827 to the Project. As a result, as of December 31, 2016, the receipts from DHCD exceeded the remissions to the Project by \$1,065,269. This balance is included within restricted cash on the consolidated statement of financial position as of December 31, 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2016 and 2015, CSI recognized \$200,000 and \$300,000, respectively, of such developer fees, which are recorded as development and management fees on the statements of activities. Since inception of the Project, CSI has recognized \$776,235 of developer fees under this agreement.

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.

NOTE 11 - SUBSEQUENT EVENTS

On December 2, 2016, CSI entered into a loan commitment with Boston Community Loan Fund for a working capital line of credit up to \$500,000 and a predevelopment loan up to \$1,000,000. These loans were closed on March 17, 2017. Through the date of this report, \$365,359 has been drawn on the predevelopment loan.