

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.

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BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Directors
Common Ground Communities, Inc. d/b/a Community Solutions, Inc.
New York, New York

We have audited the accompanying financial statements of Common Ground Communities, Inc. d/b/a Community Solutions, Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the year ended December 31, 2012 and the period from August 1, 2011 (inception) to December 31, 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Common Ground Communities, Inc. d/b/a Community Solutions, Inc., as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the year ended December 31, 2012 and the period from August 1, 2011 (inception) to December 31, 2011 in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
May 1, 2013

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,245,903 | \$ 1,861,369 |
| Investments | 5,184 | - |
| Contributions receivable, net | 1,541,735 | 2,606,872 |
| Grants receivable | 133,782 | 92,896 |
| Other receivables | 228,796 | - |
| Prepaid expenses | 22,267 | 26,099 |
| Due from Northeast Neighborhood Partners Inc. (NNPI) | 53,266 | - |
| Due from Common Ground Community Housing Development Fund (CGNY) | - | 31,281 |
| Total Assets | <u>\$ 4,230,933</u> | <u>\$ 4,618,517</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 442,978 | 117,897 |
| Deferred grant revenue | 5,000 | 21,240 |
| Due to Northeast Neighborhood Partners Inc. (NNPI) | - | 69,034 |
| Total liabilities | <u>447,978</u> | <u>208,171</u> |
| Net Assets | | |
| Unrestricted net assets | 700,503 | 181,781 |
| Temporarily restricted net assets | 3,082,452 | 4,228,565 |
| Total net assets | <u>3,782,955</u> | <u>4,410,346</u> |
| Total Liabilities and Net Assets | <u>\$ 4,230,933</u> | <u>\$ 4,618,517</u> |

The accompanying notes are an integral part of the financial statements

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012 AND
THE PERIOD FROM AUGUST 1, 2011 (INCEPTION) TO DECEMBER 31, 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Changes in Unrestricted Net Assets | | |
| Support and revenue: | | |
| Contributions | \$ 404,991 | \$ 490,941 |
| Governmental grants | 269,695 | 285,585 |
| Development and management fees | 303,152 | 130,551 |
| Program income | 208,917 | 90,029 |
| In-kind contributions | 72,898 | 27,608 |
| Consulting income | 10,876 | 55,800 |
| Other income | 12,016 | 39,680 |
| Net realized and unrealized loss on investments | (2,077) | - |
| Gain on sale of property | - | 150,715 |
| Net assets released from restrictions | 4,011,407 | 2,934,561 |
| Total unrestricted support and revenue | <u>5,291,875</u> | <u>4,205,470</u> |
| Expenses: | | |
| Program services: | | |
| Brownsville Partnership | 1,614,041 | 1,330,764 |
| 100K Homes Campaign | 1,595,682 | 1,197,443 |
| Creating Homes | 604,638 | 697,131 |
| Healthy Communities | 206,178 | 91,602 |
| Total program services | <u>4,020,539</u> | <u>3,316,940</u> |
| Management and general | 514,029 | 517,697 |
| Fundraising | 238,585 | 189,052 |
| Total expenses | <u>4,773,153</u> | <u>4,023,689</u> |
| Increase in unrestricted net assets | <u>518,722</u> | <u>181,781</u> |
| Changes in Temporarily Restricted Net Assets | | |
| Support and revenue: | | |
| Contributions | 2,865,294 | 4,511,340 |
| Transferred contributions from CGNY | - | 2,651,786 |
| Net assets released from restrictions | (4,011,407) | (2,934,561) |
| Increase (decrease) in temporarily restricted net assets | <u>(1,146,113)</u> | <u>4,228,565</u> |
| Change in Net Assets | (627,391) | 4,410,346 |
| Net Assets - Beginning of Period | <u>4,410,346</u> | <u>-</u> |
| Net Assets - End of Period | <u>\$ 3,782,955</u> | <u>\$ 4,410,346</u> |

The accompanying notes are an integral part of the financial statements

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

| | Program Services | | | | Support Services | | | Grand Total | |
|--------------------------------|----------------------------|------------------------|------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| | Breastcille Partnership | Healthy Communities | 100K Homes Campaign | Creating Homes | Management | | Fund Raising | | |
| | | | | | and General | Total | | | |
| | Total | | | | | | | | |
| Personnel services | \$ 1,220,700 | \$ 493,400 | \$ 888,263 | \$ 324,119 | \$ 2,726,482 | \$ 195,420 | \$ 199,494 | \$ 344,914 | \$ 2,967,400 |
| Professional services | 129,644 | - | 117,127 | 112,073 | 359,844 | 223,796 | 43,470 | 267,266 | 627,110 |
| Travel and conference | 27,520 | 8,040 | 147,746 | 2,197 | 185,503 | 23,490 | 24,763 | 48,253 | 233,756 |
| Subcontract expenses | 87,042 | - | 5,000 | 139,879 | 231,721 | - | - | - | 231,721 |
| Occupancy | 93,700 | - | 17,009 | - | 110,709 | 46,514 | 14,752 | 61,266 | 171,975 |
| Communication | 23,982 | 2,882 | 35,794 | 1,369 | 63,927 | 16,907 | - | 16,907 | 80,834 |
| Program expenses | 34,939 | 1,305 | 36,408 | 4,497 | 77,149 | - | - | - | 77,149 |
| Printing and postage | 10,113 | 413 | 6,940 | 364 | 18,830 | 10,822 | - | 10,822 | 29,652 |
| Advertising and marketing | 239 | - | 13,738 | 399 | 14,476 | 22,341 | - | 22,341 | 36,817 |
| Office supplies and expenses | 9,827 | - | 3,822 | - | 13,649 | 12,093 | 4,734 | 16,827 | 30,476 |
| Equipment purchases and rental | 12,263 | - | 3,989 | - | 16,252 | 13,954 | - | 13,954 | 30,206 |
| Insurance | - | - | - | - | - | 19,671 | - | 19,671 | 19,671 |
| Miscellaneous expenses | 1,005 | 333 | 167 | 100 | 1,605 | 11,264 | - | 11,264 | 12,869 |
| Total | \$ 1,814,060 | \$ 494,738 | \$ 1,097,462 | \$ 364,638 | \$ 4,070,904 | \$ 716,026 | \$ 248,267 | \$ 964,293 | \$ 4,775,193 |

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

COMMON GROUND COMMUNITIES, INC.
dba COMMUNITY SOLUTIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM AUGUST 1, 2011 (INCEPTION) TO DECEMBER 31, 2011

| | Program Services | | | | Support Services | | | Grand Total | |
|--------------------------------|---------------------------------------|------------------------|-----------------------|-------------------|------------------------------|-------------------|-------------------|-------------------|---------------------|
| | Revenue- Generating Partnership | Healthy Communities | SNH Home Campaigns | Creating Homes | Management and General | Food Banking | Total | | |
| Personnel services | \$ 90,880 | \$ 88,987 | \$ 1,027,982 | \$ 790,360 | \$ 243,625 | \$ 69,119 | \$ 312,744 | \$ 2,003,706 | |
| Professional outside | 80,762 | - | 29,417 | 17,344 | 42,365 | 136,229 | 97,800 | 224,714 | 296,294 |
| Subcontract expenses | 177,367 | - | 22,500 | 76,434 | 236,309 | - | - | - | 236,309 |
| Travel and conference | 15,267 | 1,103 | 69,717 | 18,136 | 104,815 | 15,622 | 10,958 | 46,989 | 171,201 |
| Occupancy | 66,038 | - | 7,237 | - | 73,275 | 29,668 | 8,790 | 38,458 | 111,733 |
| Communication | 24,434 | - | 24,381 | 130 | 48,945 | 13,211 | - | 25,210 | 69,217 |
| Program expenses | 70,645 | 1,032 | 2,823 | 492 | 67,992 | - | - | - | 67,992 |
| Office supplies and expenses | 8,726 | - | 8,499 | - | 17,224 | 9,670 | 3,083 | 12,753 | 30,142 |
| Insurance | 696 | - | - | - | 696 | 21,790 | - | 22,486 | 24,882 |
| Advertising and marketing | 15,930 | - | 4,291 | - | 20,142 | 138 | - | 138 | 20,472 |
| Printing and postage | 3,444 | - | 4,153 | 44 | 7,641 | 10,183 | - | 10,367 | 20,904 |
| Equipment purchases and rental | 8,260 | - | 791 | - | 9,051 | 8,403 | - | 8,403 | 17,454 |
| Miscellaneous expenses | - | - | 3,082 | - | 3,082 | 4,269 | - | 4,269 | 7,351 |
| Total | \$ 1,130,764 | \$ 91,602 | \$ 1,097,640 | \$ 897,130 | \$ 1,136,940 | \$ 117,697 | \$ 149,052 | \$ 286,749 | \$ 4,073,699 |

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

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012 AND
THE PERIOD FROM AUGUST 1, 2011 (INCEPTION) TO DECEMBER 31, 2011

| | 2012 | 2011 |
|---|--------------|--------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (627,391) | \$ 4,410,346 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized and unrealized loss on investments | 2,077 | - |
| (Increase) decrease in operating assets: | | |
| Contributions receivable, net | 1,065,137 | (2,606,872) |
| Grants receivable | (40,886) | (92,896) |
| Other receivables | (228,796) | - |
| Prepaid expenses | 3,832 | (26,099) |
| Due from Northeast Neighborhood Partners Inc. (NNPI) | (53,266) | - |
| Due from Common Ground Community Housing Development Fund (CGNY) | 31,281 | (31,281) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 325,081 | 117,897 |
| Deferred grant revenue | (16,240) | 21,240 |
| Due to Northeast Neighborhood Partners Inc. (NNPI) | (69,034) | 69,034 |
| Net cash provided by operating activities | 391,795 | 1,861,369 |
| Cash Flows from Investing Activities | | |
| Net purchase of investments | (7,261) | - |
| Net cash used in investing activities | (7,261) | - |
| Net Increase in Cash and Cash Equivalents | 384,534 | 1,861,369 |
| Cash and Cash Equivalents - Beginning of Period | 1,861,369 | - |
| Cash and Cash Equivalents - End of Period | \$ 2,245,903 | \$ 1,861,369 |

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

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities - Common Ground Communities, Inc. d/b/a Community Solutions, Inc. (the Organization) was incorporated in 2011 as 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 February 2010, the Board of Directors of Common Ground Community Housing Development Fund Corporation, Inc. (CGNY) announced its intention to restructure the organization by transitioning its national programs, including the 100,000 Homes Campaign and the Brownsville Partnership, to a new stand-alone organization that would expand these efforts. Per the Reorganization and Separation Agreement dated June 29, 2011 with an effective date of August 1, 2011, the Organization was formed. On this date, CGNY transferred to the Organization a payment consisting of all grants, contributions and gifts that donors have expressly designated to be used solely for the transferred national programs. For the year ended December 31, 2011, this contribution is recognized within changes in temporarily restricted net assets on the statement of activities. In addition to this, CGNY transferred all assets, liabilities and expenditures to date corresponding with each transferred employee to the Organization. The President of the Organization was formerly the President of CGNY. Effective January 1, 2011, the President resigned from her position at CGNY.

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, 2012 and 2011.

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.

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment Valuation and Income Recognition - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized loss on investments includes the Organization's gains and losses on investments bought and sold as well as held during the year.

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.

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 financial statements in accordance with applicable accounting standards.

Income Taxes - The Organization is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. The Organization's informational returns for the periods ended December 31, 2012 and 2011, are subject to examination by the Internal Revenue Service and the State of New York.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through May 1, 2013, which represents the date the financial statements were available to be issued.

COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - FAIR VALUE MEASUREMENTS

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

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Organization's investments at December 31, 2012 consisted of domestic equities in the amount of \$5,184, which are valued using Level 1 inputs.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable as of December 31, 2012 and 2011, are expected to be collected as follows:

| | <u>2012</u> | <u>2011</u> |
|------------------------------------|---------------------|---------------------|
| Receivable in less than one year | \$ 1,397,240 | \$ 1,518,957 |
| Receivable in one to five years | 150,516 | 1,139,445 |
| | <u>1,547,756</u> | <u>2,658,402</u> |
| Less discount to net present value | 6,021 | 51,530 |
| Net Contributions Receivable | <u>\$ 1,541,735</u> | <u>\$ 2,606,872</u> |

**COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CONTRIBUTIONS RECEIVABLE (Continued)

Contributions receivable in more than one year are discounted at 2%. Management has determined that an allowance for uncollectible accounts for accounts receivable or contributions receivable is not necessary as of December 31, 2012 and 2011. 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.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or future periods as of December 31, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Purpose restrictions: | | |
| Brownsville Partnership | \$ 1,539,680 | \$ 1,746,988 |
| 100K Homes Campaign | 1,251,431 | 2,060,625 |
| Healthy Communities | 166,341 | 266,474 |
| Creating Homes | - | 14,478 |
| Time restrictions | <u>125,000</u> | <u>140,000</u> |
| Total Temporarily Restricted Net Assets | <u>\$ 3,082,452</u> | <u>\$ 4,228,565</u> |

NOTE 5 - 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, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Purpose restrictions: | | |
| Brownsville Partnership | \$ 1,705,120 | \$ 1,096,807 |
| 100K Homes Campaign | 1,660,976 | 985,081 |
| Creating Homes | 274,478 | 438,647 |
| Healthy Communities | 180,833 | 96,026 |
| Time restrictions | <u>190,000</u> | <u>318,000</u> |
| Total Net Assets Released from Restrictions | <u>\$ 4,011,407</u> | <u>\$ 2,934,561</u> |

**COMMON GROUND COMMUNITIES, INC.
d/b/a COMMUNITY SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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 \$37,772 and \$35,324 as of December 31, 2012 and 2011, respectively.

NOTE 7 - OPERATING LEASES

The Organization leases equipment and office spaces under multiple operating leases that run through August 2013. Rent expense for these leases amounted to \$73,693 and \$95,443 as of December 31, 2012 and 2011, respectively.

As part of the Reorganization and Separation Agreement with CGNY, the Organization was granted the right to reside in the current office space located at 14 East 28th Street, New York, NY, rent free for a period of 24 months. The Organization recognized an in-kind contribution from CGNY in the amount of \$55,216 and \$27,608, as of December 31, 2012 and 2011, respectively, which is the current market value for a comparable space.

Future minimum lease payments expected within the next year are \$41,137 as of December 31, 2012.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the periods ended December 31, 2012 and 2011, the Organization paid expenses for Northeast Neighborhood Partners Inc. (NNPI). The costs incurred by the Organization for NNPI are offset by advanced payments received by the Organization from NNPI. In addition to this, certain employees of the Organization performed work for NNPI throughout the year. The percentage of the employees' salaries pertaining to the work performed is charged to NNPI throughout the year. Lastly, the President of the Organization is the President of the Board of Directors of NNPI as of December 31, 2012 and 2011.