PART OF THE SOLUTION, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011
(With Comparative Totals for December 31, 2010)

PART OF THE SOLUTION, INC. AND AFFILIATE

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December 31, 2011

MBAF CPAs, LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Part of the Solution, Inc. and Affiliate

We have audited the accompanying consolidated statement of financial position of Part of the Solution, Inc. and Affiliate (the "Organization") as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 consolidated financial statements and, in our report dated April 27, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Part of the Solution, Inc. and Affiliate as of December 31, 2011 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidating financial statements as a whole. The supplementary information as set forth on the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The prior year summarized comparative information on the supplementary information has been derived from the Organization's 2010 consolidated financial statements and, in our report dated April 27, 2011, we expressed an unqualified opinion on those consolidated financial statements and supplementary information. In our opinion, ,and based on our report for the 2010 consolidated financial statements as stated above, the 2010 summarized information is fairly stated in all material respects in relation to the financial statements as a whole.

MBAF CPAs, LLC

New York, NY
April 30, 2012

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011 (With Comparative Totals for 2010)	2011	2010
Assets:		
Cash and cash equivalents	$ 1,809,075	$ 1,494,463
Cash and cash equivalents - restricted	710,861	2,237,511
Investments	326,592	327,702
Contributions and grants receivable, net	1,045,107	1,158,413
Note receivable	6,318,294	6,318,294
Prepaid expenses and other assets	27,963	23,830
Property and equipment, net	7,828,615	211,635
Construction-in-progress	-	6,956,044
Deferred New Markets Tax Credit Issuance Costs ("NMTC"), net	295,981	303,733
Total Assets	**$ 18,362,488**	**$ 19,031,625**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 294,700	$ 982,526
Note payable - Fund	8,536,000	8,536,000
Notes payable - POTS directors	525,667	838,050
Total Liabilities	9,356,367	10,356,576
Net Assets:		
Unrestricted	8,404,772	2,975,459
Temporarily restricted	601,349	5,699,590
Total Net Assets	9,006,121	8,675,049
Total Liabilities and Net Assets	**$ 18,362,488**	**$ 19,031,625**

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2011 (With Comparative Totals for 2010)	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
Support and revenues:				
Individual contributions	$ 420,878	$ 15,241	$ 436,119	$ 450,590
Government grants	334,499	25,000	359,499	349,200
Foundations and corporate contributions	55,967	948,500	1,004,467	965,578
Schools and community groups	37,043	100,000	137,043	78,521
Special events, net of direct expenses of $131,125 and $56,172 for 2011 and 2010, respectively	287,826	-	287,826	216,256
In-kind contributions	153,889	-	153,889	198,148
Interest and dividend income	81,532	417	81,949	65,239
Realized (loss) gain on sale of investments	(681)	-	(681)	290
Unrealized (loss) gain on investments	(19,126)	-	(19,126)	20,353
Miscellaneous income	2,651	-	2,651	2,819
Net assets released from restrictions	6,187,399	(6,187,399)	-	-
Total Support and Revenues	7,541,877	(5,098,241)	2,443,636	2,346,994
Program expenses:				
Food service programs	832,480	-	832,480	685,516
Day-to-day program services	748,379	-	748,379	638,480
Total Program Expenses	1,580,859	-	1,580,859	1,323,996
Management and general	380,483	-	380,483	300,599
Fundraising	151,222	-	151,222	97,436
Total Expenses	2,112,564	-	2,112,564	1,722,031
Change in net assets	5,429,313	(5,098,241)	331,072	624,963
Net assets, beginning of year	2,975,459	5,699,590	8,675,049	8,050,086
Net assets, end of year	**$ 8,404,772**	**$ 601,349**	**$ 9,006,121**	**$ 8,675,049**

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011 (With Comparative Totals for 2010)

	Program Services			Supporting Services				
	Food Service Programs	Day-to-Day Program Services	Total	Management and General	Fundraising	Total	2011 Total	2010 Total
Salaries	$ 214,353	$ 338,260	$ 552,613	$ 65,803	$ 68,628	$ 134,431	$ 687,044	$ 589,335
Payroll taxes and fringe benefits	49,662	87,028	136,690	11,042	15,448	26,490	163,180	140,538
Food	380,725	-	380,725	340	22	362	381,087	364,458
Repairs and maintenance	13,906	8,593	22,499	2,701	1,169	3,870	26,369	11,283
Equipment rental	2,427	3,602	6,029	454	396	850	6,879	3,115
Program related expense	1,961	44,441	46,402	1,742	58	1,800	48,202	46,424
Professional fees	3,498	40,758	44,256	74,050	14	74,064	118,320	109,975
Occupancy and utilities	43,440	52,606	96,046	7,092	7,031	14,123	110,169	47,122
Telephone	5,526	9,810	15,336	1,850	2,589	4,439	19,775	12,535
Supplies	35,103	59,269	94,372	7,432	238	7,670	102,042	91,672
Printing and copying	2,055	2,369	4,424	1,756	3,087	4,843	9,267	7,011
Office and miscellaneous expense	6,027	14,499	20,526	2,875	1,376	4,251	24,777	16,439
Postage and messenger	2,165	3,601	5,766	1,178	1,052	2,230	7,996	8,991
Computer	4,731	7,566	12,297	1,218	1,393	2,611	14,908	14,748
Conferences and training	4,464	9,914	14,378	7,402	1,131	8,533	22,911	13,545
Insurance	17,232	18,810	36,042	3,597	3,181	6,778	42,820	44,877
Service fees	187	39	226	18,367	5,883	24,250	24,476	19,238
Depreciation and amortization	45,018	47,214	92,232	17,634	7,686	25,320	117,552	41,938
Bad debt expense	-	-	-	-	30,840	30,840	30,840	-
Interest expense	-	-	-	87,182	-	87,182	87,182	81,659
NMTC compliance fees	-	-	-	66,768	-	66,768	66,768	57,128
Total expenses - 2011	**$ 832,480**	**$ 748,379**	**$ 1,580,859**	**$ 380,483**	**$ 151,222**	**$ 531,705**	**$ 2,112,564**	
Total expenses - 2010	**$ 685,516**	**$ 638,480**	**$ 1,323,996**	**$ 300,599**	**$ 97,436**	**$ 398,035**		**$ 1,722,031**

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2011 (With Comparative Totals for 2010)	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 331,072	$ 624,963
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss (gain) on investments	19,126	(20,353)
Realized loss (gain) on investments	681	(290)
Donated marketable securities	(58,552)	(50,404)
Bad debt expense	30,840	-
Net present value adjustment on contributions and grants receivable	(16,149)	-
Contributions restricted for acquisition and renovation of building	-	(1,583,983)
Depreciation and amortization	117,552	41,938
Changes in operating assets and liabilities:		
Contributions and grants receivable	126,745	1,135,018
Prepaid expenses and other assets	(4,133)	28,921
Accounts payable and accrued expenses	(687,826)	888,116
Net cash (used in) provided by operating activities	**(140,644)**	**1,063,926**
Cash flows from investing activities:		
Purchase of property and equipment	(132,986)	(9,522)
Purchase of construction-in-progress	(637,750)	(3,588,212)
Purchase of investments	(18,099)	(3,066,749)
Proceeds from sale of investments	29,824	5,568,911
Investment in NMTC issuance costs	-	(309,866)
Investment in note receivable	-	(6,318,294)
Net cash used in investing activities	**(759,011)**	**(7,723,732)**
Cash flows from financing activities:		
Proceeds from note payable - fund	-	8,536,000
Repayment of note payable - bank	-	(2,382,004)
Proceeds from interest reserve	-	242,705
Proceeds from notes payable - POTS directors	-	1,150,000
Repayment of notes payable - POTS directors	(312,383)	(311,950)
Contributions restricted for acquisition and renovation of building	-	1,583,983
Net cash (used in) provided by financing activities	**(312,383)**	**8,818,734**
Net (decrease) increase in cash and cash equivalents	(1,212,038)	2,158,928
Cash and cash equivalents, beginning of year	3,731,974	1,573,046
Cash and cash equivalents, end of year	**$ 2,519,936**	**$ 3,731,974**

Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 89,425	$ 136,817
Income taxes	$ -	$ -
Non-cash Investing and Financing Activities		
In-kind contributions	$ 153,889	$ 198,148
Donated stock	$ 58,552	$ 50,404
Construction-in-progress placed into service	$ 6,956,044	$ -

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

1. NATURE OF THE ORGANIZATION:

Part of the Solution, Inc. ("POTS") was founded in 1982. POTS, as determined by the Internal Revenue Service ("IRS"), is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC") and has been held to be a publicly supported organization and not a private foundation under Section 509(a) of the IRC. POTS provides various food service and social service program support to those in need and its primary source of revenue is generated from contributions. POTS operates in Bronx County of New York.

POTS Building for the Future ("PBFF") was formed in November 2009 exclusively for the benefit of POTS by raising funds and providing grants and loans to support the work of POTS. POTS is the sole member of PBFF and appoints the Board of Directors of PBFF. PBFF is a New York State not-for-profit organization that has received its tax exempt status, as determined by the IRS, under Section 501(c)(3) of the IRC and has received approval to be held as a publicly supported organization and not a private foundation under Section 509(a) of the IRC.

The signature programs of POTS and PBFF (collectively, the "Organization") are the Food Service Programs and the Day-to-Day Program Services:

Food Service Programs – This program is funded by a combination of individual, corporate, foundation, and government income. It consists of a pantry service provided to community residents of the surrounding area of the Organization located in the Bronx, New York. The pantry service provides groceries and nutritional food to these residents. It also consists of a community kitchen that is open to all those in need that pass through the doors of the Organization.

Day-to-Day Program Services – This program is funded by a combination of individual, corporate, foundation, and government income and consists of a legal clinic, a shower program, psychotherapy, a mail box program for guests, and other basic supporting social services for those in need.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

POTS has a controlling financial interest in PBFF and is financially interrelated. Accordingly, the accompanying consolidated financial statements include the accounts of POTS and its controlled affiliate PBFF in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification, *Not-for-Profit Entities – Consolidation (Topics 958-810).* All significant intercompany accounts and transactions have been eliminated.

The Organization's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the Organization's net assets and its revenue, support, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

- Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

- Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

- Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include contributions, support, and investment interest income that will be used by the Organization in connection with its mission as designated by the Board of Directors.

Cash and Cash Equivalents
The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition as cash and cash equivalents.

Cash and cash equivalents - restricted is comprised of restricted cash for capital campaign, construction costs, and funding to help repay loans to directors and New Markets Tax Credit annual fees payable through the end of the seven year compliance period (see Note 6).

Investments
Investments are recorded at fair value and are all deemed to be available for sale. Realized gains or losses are recognized based on the first-in, first-out, or the specific-identification method. Interest and dividends on securities are recorded on the ex-dividend date. Interest and dividends earned on restricted assets maintain their restricted classification.

Donated Securities
It is the intention of the Organization to sell all gifts of public securities upon receipt or as soon thereafter as possible. For the years ended December 31, 2011 and 2010, the Organization received $58,552 and $50,404, respectively, in donated securities.

Contributions and Grants Receivable

Contributions and grants receivable represent unconditional promises to give by donors. At December 31, 2011 and 2010, the Organization had contributions receivable (net of allowance for uncollectable contributions and discount to present value) of $1,045,107 and $1,158,413, respectively, which are scheduled to be received within five years and are recorded at net realizable value. The Organization considers all gifts of long-lived assets to be temporarily restricted. The Organization uses the allowance method to determine uncollectible contributions and grants receivable. Such allowance 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. Contributions and grants receivable that are due in more than one year are discounted to present value using the rate of 5% on the date that the contribution is made.

Property and Equipment and Construction-in-Progress

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Organization has established a $1,000 threshold above which assets are capitalized. No depreciation is recorded on the construction-in-progress until the construction is complete and is placed into service.

Impairment

The Organization reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the entity recognizes an impairment loss. No impairment losses were required to be recognized for the years ended December 31, 2011 and 2010.

Revenue Recognition

Government grants are recognized as revenue to the extent that expenditures have been incurred. Funding from government agencies are subject to audit by those agencies. The government agencies may request return of funds as a result of noncompliance by the Organization with the terms of the grants/contracts.

Other grants and contributions are recognized as revenue when they are received or unconditionally pledged.

In-Kind Contributions

The Organization receives contributions of donated goods and services that are an integral part of its operations. Such assets and services are recorded as contributions in-kind at their values based on market values of items and services donated or on current prices at the time of donation, if no receipt is available. Contributions are recorded in the period received.

Special Events
The direct costs of special events include expenses for the benefit of the donor. Accordingly, food and facility rentals, amongst other costs, are considered direct costs of the special event.

Functional Allocation of Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Organization has evaluated events through April 30, 2012, which is the date the consolidated financial statements were available to be issued.

Comparative Financial Information
The consolidated financial statements include certain prior-year summarized comparative information in total and not by functional class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Income Taxes
The accounting standard for uncertainty in income taxes prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. The ultimate realization of such tax positions is dependent upon the generation of future income. Management considers projected future income and tax planning strategies in making this assessment. Based upon the level of historical income and projections for future income, management believes it is more likely than not that the Organization will realize all tax benefits.

Should there be interest on underpayments of income tax, the Organization would classify it as "Interest Expense." The Organization would classify penalties in connection with underpayments of tax as "Other Expense."

The Organization does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the year ended December 31, 2011. However, the Organization may be subject to audit by tax authorities. The Organization believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

The Organization files informational returns in the United States federal and New York State jurisdictions. The Organization is generally no longer subject to examinations by the Internal Revenue Service or New York State for returns filed before 2008.

Fair Value Measurements and Fair Value-Definition and Hierarchy
The Organization follows the accounting standard related to fair value measurements standard. Under this standard, fair value is defined as 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.

This standard establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about inputs used by market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows-

- Level 1- Valuation based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

- Level 2- Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3- Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the standard. The three valuation techniques are as follows:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

- Income approach - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Note Receivable

The Organization originated its note receivable for a specific purpose and in accordance with the Federal New Markets Tax Credit program ("NMTC") as more fully described in Note 6.

The Organization has the intent and ability to hold for the foreseeable future its note receivable that is stated at its outstanding principal balance on the accompanying consolidated statement of financial position.

The note receivable has been reviewed and adjusted for all known uncollectible accounts and no allowance for a loan loss reserve has been provided or deemed required. The Organization uses a disciplined process and methodology to establish the allowance for credit losses annually as described below. For the purpose of credit analysis, the Organization has only one segment in which it categorizes its note receivable, that being, lending to an investor to participate in the NMTC program.

Note Receivable Ratings and Loss Reserve

The Organization rates its loan (or, note receivable) for credit quality assigning a 1 to 3 rating for each of five credit quality indicators, which are: (1) capacity of the project cash flows to repay the loan (2) collateral strength (3) borrower's assets and overall financial strength (4) borrower's overall cash-flow history and projections, and (5) borrower's management capacity and other intangibles. The loan is given a letter rating based on the sum of the numerical ratings for each of the five credit quality indicators as follows: A loan is given an "A" (strong) rating if the numerical value for the loan is 13 or above; a "B" (average) rating for values between 9 and 12.9 points; a "C" (weak) rating for values between 5 and 8.9; a "D" (at-risk) rating for values below 5; and an "E" (default) rating for loans in default. The loan is evaluated annually. The credit quality indicators would be used for all segments. For A loans, reserves are generally not required. For B or C loans, loan loss reserve amounts are calculated based on a fixed percentage of the outstanding balance. For D or E loans, loan loss reserve amounts are calculated based on an assessment of the amount recoverable either from loan payments or from the collateral. From time to time, events or economic factors may affect a loan, causing management to provide amounts to, or release balances from, the allowance for loan loss reserve (if any). An allowance for loan loss reserve reflects management's judgment of probable loan losses inherent in the note receivable at the consolidated Statement of Financial Position dates. Management has determined that at December 31, 2011 and 2010, no reserves were required.

The Organization has a policy of writing off an uncollectable loan against loan loss reserves after all collection efforts have been exhausted. Additions to the loan loss reserve (when recorded) will be made by charges to the provision for loan loss. A loan deemed to be uncollectable is charged against the loan loss reserve. Recoveries of previously charged off amounts will be credited to the loan loss reserve.

The Organization reviews its note receivable on a monthly basis to determine if there are any delinquencies. The Organization determines any impairment on the note receivable based on various factors that ultimately are used to calculate collectability. As part of the review, the Organization reviews the terms of the original note or loan, the nature of the transaction, the collateral associated with it, projected future cash flows, history of repayment, management capacity of borrower, and knowledge of the borrower's financial strength.

Recent Accounting Pronouncements

In July of 2010, FASB issued an Accounting Standards Update ("ASU") No. 2010-20, Receivables (Topic 310): *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* which was effective for annual reporting periods ending on or after December 15, 2011. The accounting standards update requires disclosures about the nature of credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. Additional disclosures are required on a disaggregated basis for portfolio segments and classes of financing receivables, and the activity in both the financing receivable individual class and its related allowance for credit losses. Disclosures related to troubled debt restructurings and the nonaccrual statuses of financing receivables are also required. The Organization labels its financing receivable as a note receivable. Adoption of this accounting standard update during the year ended December 31, 2011 resulted in additional disclosures in the Organization's consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*. The FASB believes this ASU clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption - one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This ASU was effective for the reporting periods beginning after June 15,

2010. The Organization adopted this ASU during the year ended December 31, 2011 and there was no material impact on the consolidated financial statements.

In January 2010, the FASB issued an accounting standard update on fair value measurements and disclosures. The update requires more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009; except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this update did not have an effect on the Organization's consolidated financial statements.

In May 2011, the FASB issued an accounting standard update which works to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The update both clarifies the FASB's intent about the application of existing fair value guidance, and also changes certain principles regarding measurement and disclosure. The update is effective prospectively and is effective for annual periods beginning after December 15, 2011. Early application is permitted for interim periods beginning after December 15, 2011. The Organization is currently evaluating the effect the update will have on its consolidated financial statements.

Reclassifications

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements. These reclassifications had no effect on previously reported change in net assets.

3. CONTRIBUTIONS AND GRANTS RECEIVABLE:

The Organization's Board of Directors approved a long-term fundraising plan (the "Capital Campaign") to raise funds for the acquisition and construction of additional facilities and costs related to this activity.

Unconditional promises to give have been recorded at present values. Unless not material, receivables due in more than one year have been discounted to present values using the rate of 5% on the date that the contribution is made. The receivables are recorded as follows:

December 31,	2011	2010
Capital campaign	$ 520,300	$ 703,476
Other receivables	564,147	515,982
Total	1,084,447	1,219,458
Less:		
Discount to present value	(4,340)	(20,489)
Allowance for doubtful accounts	(35,000)	(40,556)
Net contributions and grants receivable	$ 1,045,107	$ 1,158,413

Amounts due in:		
Less than one year	$ 857,607	$ 806,622
One to five years	187,500	351,791
Total	$ 1,045,107	$ 1,158,413

4. PROPERTY AND EQUIPMENT, AND CONSTRUCTION-IN-PROGRESS:

Property and equipment and construction-in-progress consist of the following:

December 31:	2011	2010	Estimated Useful Life
Land	$ 503,998	$ 35,000	N/A
Building and improvements	7,572,691	558,537	39 1/2 years
Office equipment	82,165	209,399	3-7 years
Furniture and fixtures	248,981	49,902	3-5 years
Automobiles	16,593	15,900	5 years
Total property and equipment	8,424,428	868,738	
Less: accumulated depreciation	(595,813)	(657,103)	
Net property and equipment	$ 7,828,615	$ 211,635	
Construction-in-progress	$ -	$ 6,956,044	N/A

Depreciation expense for the years ended December 31, 2011 and 2010 was $109,800 and $35,805, respectively.

The Organization renovated a new facility for operations, which was completed and placed into service during the year ended December 31, 2011. Construction-in-progress (of this facility) at December 31, 2010 was stated at cost and was not depreciated until it was placed into service. Construction-in-progress included capitalization of various costs, including interest costs associated with the construction. Interest costs capitalized amounted to zero and $39,273 for the years ended December 31, 2011 and 2010, respectively, due to the Construction-in-progress being substantially completed in previous years.

5. FAIR VALUE MEASUREMENTS ON A RECURRING BASIS:

The Organization's investments consist of mutual funds.

The following are the classes of assets measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

December 31, 2011	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
Mutual funds - equities	$ 98,348	$ 98,348	$ -	$ -
Mutual Funds - fixed income	78,623	78,623	-	-
Mutual Funds - alternative strategies	40,515	40,515	-	-
Mutual Funds - other	109,106	109,106	-	-
	$ 326,592	$ 326,592	$ -	$ -

December 31, 2010	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
Mutual funds - equities	$ 102,702	$ 102,702	$ -	$ -
Mutual Funds - fixed income	78,523	78,523	-	-
Mutual Funds - alternative strategies	39,524	39,524	-	-
Mutual Funds - other	106,953	106,953	-	-
	$ 327,702	$ 327,702	$ -	$ -

Interest and dividend income are reinvested in accordance with the Organization's investment policy.

The aggregate cost basis, unrealized gains and losses, and fair market value of the investment account, follows:

December 31, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual funds	$ 325,136	$ 3,852	$ (2,396)	$ 326,592

December 31, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual funds	$ 307,349	$ 20,353	$ -	$ 327,702

Investment return was comprised as follows:

December 31,	2011	2010
Fair value, beginning of year	$ 327,702	$ -
Purchases	18,099	3,066,749
Sales	(29,824)	(5,568,911)
Realized and unrealized (loss) gain	(19,807)	20,643
Transfers into investments, net	30,422	2,809,221
Fair value, end of year	$ 326,592	$ 327,702

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. During the year ended December 31, 2011, there was no other-than temporary impairments.

Mutual funds are valued on the last day of the year based upon various pricing services and independent brokers' statements; all based upon publically available exchanged-based price quotations.

6. NOTE RECEIVABLE, NOTE PAYABLE FUND, AND NEW MARKETS TAX CREDIT TRANSACTION:

In March 2010, POTS and PBFF entered into various agreements for the purpose of participating in the NMTC program. The NMTC program provides incentives, in the form of income tax credits ("tax credits"), to parties that lend funds constituting qualified low-income community investments in accordance with IRC Section 45D, and utilizes a transaction structure common for the program. The NMTC program, in this instance, involves approximately $3,432,000 in tax credits that are being allocated to a third party lender over seven years with the first year being the year ended December 31, 2010.

In connection with this transaction, POTS made a restricted grant in the amount of $6,183,354 to PBFF to induce PBFF to serve as the Leveraged Lender (as defined) in the transaction. As the Leveraged Lender, PBFF then lent its received charitable contributions raised by POTS, plus certain additional funds, to a third party NMTC investor in the form of a note receivable. The total note receivable amounts to $6,318,294 as December 31, 2011 and 2010.

The note receivable provides for interest at 1% per annum through maturity on March 19, 2050. The interest on the note receivable is receivable by PBFF annually in arrears through the end of the immediately preceding month, beginning December 1, 2010. Commencing on December 1, 2018, PBFF is to receive annual level payments of $225,736 on the note receivable. A final payment of principal and interest is receivable on the maturity date.

The NMTC investor is owned 99.99% by a bank. The NMTC investor is the beneficiary of the tax credits.

Also in March 2010, a subsidiary of the NMTC investor made a loan to POTS in the amount of $8,536,000. The loan ("note payable – fund") is secured by a mortgage on the Bronx facilities and provides for interest at 0.74% per annum through maturity on March 19, 2050. Interest due on the loan is payable annually in arrears through the end of the immediately preceding month, beginning December 1, 2010. Commencing on December 1, 2018, POTS will make annual level payments on the note payable – fund of $292,499. A final payment of principal and interest is payable on the maturity date. The entity that holds the note payable – fund, is indirectly the same entity that owes the note receivable.

In March 2017, and for the sum of $1,000, the entity that owns 99.99% of the NMTC investor has the option (the "Put option") to sell its interest in NMTC investor to PBFF. Should the Put option not be exercised, PBFF has the right to purchase these same ownership rights at the then fair market value of this entity (the "Call option"). It is anticipated that the Put option will be exercised but no assurance can be placed on this. The Put and Call options do not have readily determinable fair values and are exempt from the fair value measurements in accordance with accounting standard 825, *Financial Instruments*.

For the years ended December 31, 2011 and 2010, total issuance costs to the Organization related to NMTC transaction amounted to $309,866 which is reflected as new markets tax credit issuance costs on the consolidated statement of financial position. For the year ended December 31, 2011 and 2010, accumulated amortization expense was $7,752 and $6,133, respectively.

At December 31, 2011, the scheduled maturities of the note receivable and note payable-fund, are as follows:

Year ended December 31,	Note receivable	Note payable - fund
2012-2016	$ -	$ -
Thereafter	6,318,294	8,536,000
Total	$ 6,318,294	$ 8,536,000

The note receivable is not subject to interest imputation re-measurements. This is set forth in accounting standard 835 *Interest*, which exempts transactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency from the accounting requirements for below market interest rate loans.

Interest earned on the note receivable amounted to $63,183 and $49,844 for the years ended December 31, 2011 and 2010, respectively. Interest incurred on the note payable – fund amounted to $63,192 and $49,850 for the years ended December 31, 2011 and 2010, respectively.

Financing Note Receivable

The activity in the note receivable amounts to the following:

December 31,	2011	2010
Note receivable - beginning	$ 6,318,294	$ -
Advances	-	6,318,294
Principal repayments	-	-
Recoveries	-	-
Write-offs	-	-
Note receivable - ending	$ 6,318,294	$ 6,318,294

The note receivable was evaluated as of December 31, 2011 for impairment and no impairment was determined to be required. The note receivable loss reserve amounted to the following:

December 31,		2011		2010
Note receivable loss reserve - beginning	$	-	$	-
Provision		-		-
Charge-off		-		-
Recoveries		-		-
Note receivable loss reserve - ending	$	-	$	-
Evaluated for impairment	$	6,318,294	$	6,318,294

Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the Organization. The Organization's internal creditworthiness grading system is based on experiences with industry standards. Category ratings are reviewed periodically, at which time management analyzes the resulting score, as well as other external statistics and factors. Accordingly, at December 31, 2011 and 2010, the credit quality indicator used by management to assess the loan loss reserve amounts to the following:

Credit risk profile by loan rating category:

		2011		2010
A	$	6,318,294	$	6,318,294
B through E		-		-
Total	$	6,318,294	$	6,318,294

Aging Analysis

Following is the aging analysis of the note receivable ("Note"):

		Note Receivable Aging						
		30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Financing Receivable	Recorded Investment >90 days & accruing
2011								
Note	$	-	-	-	-	$6,318,294	$6,318,294	-
Total	$	-	-	-	-	$6,318,294	$6,318,294	-

		Note Receivable Aging						
		30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Financing Receivable	Recorded Investment >90 days & accruing
2010								
Note	$	-	-	-	-	$6,318,294	$6,318,294	-
Total	$	-	-	-	-	$6,318,294	$6,318,294	-

At December 31, 2011 and 2010, the Note was not impaired and did not require non-accrual status.

7. NOTES PAYABLE:

Notes Payable – POTS Directors:

As part of the NMTC transaction, PBFF entered into non-recourse interest only notes payable with various POTS Directors in 2010 totaling $1,150,000 ("Notes Payable"). The Notes Payable have no prepayment penalty, accrues interest at the greater of 3.5% per annum (or, the Applicable Federal Rate published by the IRS (and, matures in 2017). At December 31, 2011 and 2010, the notes payable totaled $525,667 and $838,050, respectively, and the effective interest rate has been 3.5% since inception. Interest incurred on these Notes Payable – POTS Directors amounts to $23,990 and $31,809 for the years ending December 31, 2011 and 2010, respectively.

8. RELATED PARTY TRANSACTIONS:

During the year ended December 31, 2011, POTS made grants to PBFF totaling $689,525. In addition, during the year ended December 31, 2011, PBFF made grants to POTS totaling $63,183. These balances have been eliminated for purposes of consolidation.

During the year ended December 31, 2010, POTS made grants to PBFF totaling $6,617,090. In addition, during the year ended December 31, 2010, PBFF made grants to POTS totaling $44,580. These balances have been eliminated for purposes of consolidation.

9. IN-KIND CONTRIBUTIONS:

During the years ended December 31, 2011 and 2010, the Organization recognized total in-kind donations of $153,889 and $198,148, respectively. These amounts are reflected in both support and expenses in the accompanying consolidated financial statements. Volunteers are not included in the in-kind, except for services provided by trained legal advocates and a psychiatrist. In-kind goods consist of clothing, food supplies, hygiene products, small appliances, and other miscellaneous items.

10. RETIREMENT PLAN:

The Organization maintains a qualified 401(k) voluntary contributory retirement plan offered to all permanent employees on the date of hire. The Organization makes a discretionary contribution of 4% of the eligible employees' salaries on the one year anniversary of their hire date. During the years ended December 31, 2011 and 2010, the total retirement expense consisting of employer contributions totaled $17,651 and $17,021, respectively.

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are purpose and time restricted and consist of the following:

December 31,	2011	2010
Time and use restrictions – capital improvements	$ -	$ 5,199,485
Use restrictions – program expenses	-	4,427
Time restrictions	170,000	100,000
Time and use restrictions – program expenses	431,349	395,678
	$ 601,349	$ 5,699,590

Net assets were released from restrictions either by incurring expenses or by the passage of time, thus satisfying their respective restricted purposes for the year ended December 31, 2011 as follows:

Time and use restrictions – capital improvements	$ 5,199,484
Time restrictions	100,000
Time and use restrictions – program expenses	887,915
	$ 6,187,399

12. CONCENTRATIONS:

A. Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceed the Federal Deposit Insurance Corporation insured limits of $250,000.

B. For the years ended December 31, 2011 and 2010, a single donor contributed $450,000 and $550,000 to the Organization which amounted to approximately 25% and 23%, respectively, of the Organization's total revenue for the respective year.

C. Three vendors account for approximately 58% of accounts payable and accrued expenses for the year ended December 31, 2011. One vendor accounts for approximately 81% of payables and accrued expenses for the year ended December 31, 2010.

D. Three major sources accounted for approximately 51% of contributions and grants receivable for the year ended December 31, 2011.

13. COMMITMENTS AND CONTINGENCIES:

A. The Organization leases office equipment under a non-cancellable operating lease requiring future minimum payments as follows:

Year ending December 31,		
2012	$	6,048
2013		6,048
2014		6,048
2015		2,520
Total	$	20,664

Lease expense for the years ended December 31, 2011 and 2010, amounted to $9,318 and $8,833, respectively.

B. As part of the NMTC transaction, POTS is to reimburse the NMTC lender for various asset management fees, audit and tax expenses, collectively referred to as "NMTC compliance fees." The future minimum payments of the NMTC compliance fees are as follows:

Year ending December 31,		
2012	$	66,000
2013		66,000
2014		66,000
2015		66,000
Thereafter		99,000
	$	363,000

The total NMTC compliance fees expense for the years ended December 31, 2011 and 2010 amounted to $66,768 and $57,128, respectively.

C. The Organization is involved in litigation arising in the ordinary course of business. The litigation is being handled by the Organization's insurance company.

14. RISK AND UNCERTAINTIES:

The Organization has investments that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Statement of Financial Position.

The Organization is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; actions to employees, and natural disasters. The Organization maintains commercial insurance to help protect itself from such risks and self insured on others.

The Organization entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the Organization. The accompanying consolidated financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

In connection with the NMTC transaction, the Organization could be exposed to future market conditions, lack of the Put option being exercised, an unfavorable Call option result, and subsequent exposure to government compliance and/or recapture of the tax credits enjoyed by the NMTC investor.

15. SUBSEQUENT EVENT:

In March 2012, the Organization entered into a lease agreement in which they will rent out space to a tenant for a period of fifteen years at $1 a year. The premises occupied by the tenant shall be used solely for primary health care, behavioral health, oral health care and social service only, and related administrative and office use. Such services shall also be available to those individuals who benefit from the services provided by the Organization in the building on the same basis as those offered by the tenant.

SUPPLEMENTARY INFORMATION

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2011 (With Comparative Totals for 2010)	POTS	PBFF	Eliminations	2011	2010
Assets:					
Cash and cash equivalents	$ 1,174,568	$ 634,507	$ -	$ 1,809,075	$ 1,494,463
Cash and cash equivalents - restricted	702,498	8,363	-	710,861	2,237,511
Investments	-	326,592	-	326,592	327,702
Contributions and grants receivable, net	564,147	480,960	-	1,045,107	1,158,413
Note receivable	-	6,318,294	-	6,318,294	6,318,294
Prepaid expenses and other assets	22,698	5,265	-	27,963	23,830
Property and equipment, net	7,828,615	-	-	7,828,615	211,635
Construction-in-progress	-	-	-	-	6,956,044
Deferred New Markets Tax Credit Issuance Costs ("NMTC"), net	295,981	-	-	295,981	303,733
Total Assets	**$ 10,588,507**	**$ 7,773,981**	**$ -**	**$ 18,362,488**	**$ 19,031,625**
Liabilities and Net Assets:					
Liabilities:					
Accounts payable and accrued expenses	$ 281,887	$ 12,813	$ -	$ 294,700	$ 982,526
Note payable - Fund	8,536,000	-	-	8,536,000	8,536,000
Notes payable - POTS directors	-	525,667	-	525,667	838,050
Total Liabilities	8,817,887	538,480	-	9,356,367	10,356,576
Net Assets:					
Unrestricted	1,169,271	7,235,501	-	8,404,772	2,975,459
Temporarily restricted	601,349	-	-	601,349	5,699,590
Total Net Assets	1,770,620	7,235,501	-	9,006,121	8,675,049
Total Liabilities and Net Assets	**$ 10,588,507**	**$ 7,773,981**	**$ -**	**$ 18,362,488**	**$ 19,031,625**

See independent auditors' report.

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended December 31, 2011 (With Comparative Totals for 2010)	POTS		PBFF		Eliminations		Total			
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
Support and revenues:										
Individual contributions	$ 416,371	$ 3,000	$ 4,507	$ 12,241	$ -	$ -	$ 420,878	$ 15,241	$ 436,119	$ 450,590
Government grants	334,499	25,000	-	-	-	-	334,499	25,000	359,499	349,200
Foundations and corporate contributions	225,008	831,000	583,667	117,500	(752,708)	-	55,967	948,500	1,004,467	965,578
Schools and community groups	37,043	100,000	-	-	-	-	37,043	100,000	137,043	78,521
Special events, net of direct expenses of $131,125 and $56,172 for 2011 and 2010, respectively	287,826	-	-	-	-	-	287,826	-	287,826	216,256
In-kind contributions	153,889		-	-	-	-	153,889	-	153,889	198,148
Interest and dividend income	443	417	81,089	-	-	-	81,532	417	81,949	65,239
Realized (loss) gain on sale of investments	(598)	-	(83)	-	-	-	(681)	-	(681)	290
Unrealized (loss) gain on investments	-	-	(19,126)	-	-	-	(19,126)	-	(19,126)	20,353
Miscellaneous income	2,651	-	-	-	-	-	2,651	-	2,651	2,819
Net assets released from restrictions	5,999,687	(5,999,687)	6,474,406	(6,474,406)	(6,286,694)	6,286,694	6,187,399	(6,187,399)	-	-
Total Support and Revenues	7,456,819	(5,040,270)	7,124,460	(6,344,665)	(7,039,402)	6,286,694	7,541,877	(5,098,241)	2,443,636	2,346,994
Program expenses:										
Food service programs	832,480	-	-	-	-	-	832,480	-	832,480	685,516
Day-to-day program services	748,379	-	-	-	-	-	748,379	-	748,379	638,480
Unallocated payments to affiliated organization	689,525	-	63,183	-	(752,708)	-	-	-	-	-
Total Program Expenses	2,270,384	-	63,183	-	(752,708)	-	1,580,859	-	1,580,859	1,323,996
Management and general	334,769	-	45,714	-	-	-	380,483	-	380,483	300,599
Fundraising	120,382	-	30,840	-	-	-	151,222	-	151,222	97,436
Total Expenses	2,725,535	-	139,737	-	(752,708)	-	2,112,564	-	2,112,564	1,722,031
Change in net assets	4,731,284	(5,040,270)	6,984,723	(6,344,665)	(6,286,694)	6,286,694	5,429,313	(5,098,241)	331,072	624,963
Net assets, beginning of year	(3,562,013)	5,641,619	250,778	6,344,665	6,286,694	(6,286,694)	2,975,459	5,699,590	8,675,049	8,050,086
Net assets, end of year	**$ 1,169,271**	**$ 601,349**	**$ 7,235,501**	**$ -**	**$ -**	**$ -**	**$ 8,404,772**	**$ 601,349**	**$ 9,006,121**	**$ 8,675,049**

See independent auditors' report.

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011 (With Comparative Totals for 2010)

	POTS						PBFF				
	Program Services			Supporting Services			Supporting Services				
	Food Service Programs	Day-to-Day Program Services	Total	Management and General	Fundraising	Total	Management and General	Fundraising	Total	2011 Total	2010 Total
Salaries	$ 214,353	$ 338,260	$ 552,613	$ 65,803	$ 68,628	$ 687,044	$ -	$ -	$ -	$ 687,044	$ 589,335
Payroll taxes and fringe benefits	49,662	87,028	136,690	11,042	15,448	163,180	-	-	-	163,180	140,538
Food	380,725	-	380,725	340	22	381,087	-	-	-	381,087	364,458
Repairs and maintenance	13,906	8,593	22,499	2,701	1,169	26,369	-	-	-	26,369	11,283
Equipment rental	2,427	3,602	6,029	454	396	6,879	-	-	-	6,879	3,115
Program related expense	1,961	44,441	46,402	1,742	58	48,202	-	-	-	48,202	46,424
Professional fees	3,498	40,758	44,256	56,054	14	100,324	17,996	-	17,996	118,320	109,975
Occupancy and utilities	43,440	52,606	96,046	7,092	7,031	110,169	-	-	-	110,169	47,122
Telephone	5,526	9,810	15,336	1,850	2,589	19,775	-	-	-	19,775	12,535
Supplies	35,103	59,269	94,372	7,432	238	102,042	-	-	-	102,042	91,672
Printing and copying	2,055	2,369	4,424	1,756	3,087	9,267	-	-	-	9,267	7,011
Office and miscellaneous expense	6,027	14,499	20,526	2,875	1,376	24,777	-	-	-	24,777	16,439
Postage and messenger	2,165	3,601	5,766	1,178	1,052	7,996	-	-	-	7,996	8,991
Computer	4,731	7,566	12,297	1,218	1,393	14,908	-	-	-	14,908	14,748
Conferences and training	4,464	9,914	14,378	7,402	1,131	22,911	-	-	-	22,911	13,545
Insurance	17,232	18,810	36,042	3,597	3,181	42,820	-	-	-	42,820	44,877
Service fees	187	39	226	14,639	5,883	20,748	3,728	-	3,728	24,476	19,238
Depreciation and amortization	45,018	47,214	92,232	17,634	7,686	117,552	-	-	-	117,552	41,938
Bad debt expense	-	-	-	-	-	-	-	30,840	30,840	30,840	-
Interest expense	-	-	-	63,192	-	63,192	23,990	-	23,990	87,182	81,659
NMTC compliance fees	-	-	-	66,768	-	66,768	-	-	-	66,768	57,128
Total expenses - 2011	$ 832,480	$ 748,379	$ 1,580,859	$ 334,769	$ 120,382	$ 2,036,010	$ 45,714	$ 30,840	$ 76,554	$ 2,112,564	
Total expenses - 2010	$ 685,516	$ 638,480	$ 1,323,996	$ 300,599	$ 97,436		$ -	$ -	$ -		$ 1,722,031

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2011 (With Comparative Totals for 2010)	POTS	PBFF	Eliminations	2011	2010
Cash flows from operating activities:					
Change in net assets	$ (308,986)	$ 640,058	$ -	$ 331,072	$ 624,963
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:					
Unrealized loss (gain) on investments	-	19,126	-	19,126	(20,353)
Realized loss (gain) on investments	-	681	-	681	(290)
Donated marketable securities	(28,130)	(30,422)	-	(58,552)	(50,404)
Bad debt expense	-	30,840	-	30,840	-
Net present value adjustment on contributions and grants receivable	-	(16,149)	-	(16,149)	-
Contributions restricted for acquisition and renovation of building	-	-	-	-	(1,583,983)
Depreciation and amortization	117,552	-	-	117,552	41,938
Changes in operating assets and liabilities:					
Contributions and grants receivable	(10,035)	136,780	-	126,745	1,135,018
Prepaid expenses and other assets	(4,133)	-	-	(4,133)	28,921
Accounts payable and accrued expenses	(683,148)	(4,678)	-	(687,826)	888,116
Net cash (used in) provided by operating activities	**(916,880)**	**776,236**	**-**	**(140,644)**	**1,063,926**
Cash flows from investing activities:					
Purchase of property and equipment	(132,986)	-	-	(132,986)	(9,522)
Purchase of construction-in-progress	(637,750)	-	-	(637,750)	(3,588,212)
Purchase of investments	-	(18,099)	-	(18,099)	(3,066,749)
Proceeds from sale of investments	-	29,824	-	29,824	5,568,911
Investment in NMTC issuance costs	-	-	-	-	(309,866)
Investment in note receivable	-	-	-	-	(6,318,294)
Net cash (used in) provided by investing activities	**(770,736)**	**11,725**	**-**	**(759,011)**	**(7,723,732)**
Cash flows from financing activities:					
Proceeds from note payable - fund	-	-	-	-	8,536,000
Repayment of note payable - bank	-	-	-	-	(2,382,004)
Proceeds from interest reserve	-	-	-	-	242,705
Proceeds from notes payable - POTS directors	-	-	-	-	1,150,000
Repayment of notes payable - POTS directors		(312,383)	-	(312,383)	(311,950)
New Market Tax Credit deposit	-	-	-	-	-
Contributions restricted for acquisition and renovation of building	-	-	-	-	1,583,983
Net cash (used in) provided by financing activities	**-**	**(312,383)**	**-**	**(312,383)**	**8,818,734**
Net (decrease) increase in cash and cash equivalents	(1,687,616)	475,578	-	(1,212,038)	2,158,928
Cash and cash equivalents, beginning of year	3,564,682	167,292	-	3,731,974	1,573,046
Cash and cash equivalents, end of year	**$ 1,877,066**	**$ 642,870**	**$ -**	**$ 2,519,936**	**$ 3,731,974**
Supplemental Disclosures of Cash Flow Information:					
Cash paid during the year for:					
Interest	$ 64,744	$ 24,681		$ 89,425	$ 136,817
Income taxes	$ -	$ -		$ -	$ -
Non-cash Investing and Financing Activities					
In-kind contributions	$ 153,889	$ -		$ 153,889	$ 198,148
Donated stock	$ 28,130	$ 30,422		$ 58,552	$ 50,404
Construction-in-progress placed into service	$ 6,956,044	$ -		$ 6,956,044	$ -

See independent auditors' report.