



**PART OF THE SOLUTION, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

(With Comparative Totals for December 31, 2008)

DECEMBER 31, 2009

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, 2009 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 Part of the Solution, Inc.'s 2008 financial statements and, in our report dated April 7, 2009 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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, 2009 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.



New York, NY
June 16, 2010

PART OF THE SOLUTION, INC. AND AFFILIATE

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PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31,

(With Comparative Totals for 2008)

2009

2008

Assets:

Cash and cash equivalents	\$ 1,000,483	\$ 869,867
Cash and cash equivalents - restricted	3,331,380	2,512,246
Interest reserve	242,705	427,134
Contributions and grants receivable, net	2,293,431	2,266,759
Prepaid expenses and other assets	52,751	7,682
Property and equipment, net	237,918	202,958
Construction-in-progress	3,367,832	2,709,566

Total Assets

\$ 10,526,500 \$ 8,996,212

Liabilities and Net Assets:

Liabilities:

Accounts payable and accrued expenses	\$ 94,410	88,606
Note payable - bank	2,382,004	\$ 2,331,157
	2,476,414	2,419,763

Net Assets:

Unrestricted	2,789,933	2,604,620
Temporarily restricted	5,260,153	3,971,829
Total net assets	8,050,086	6,576,449

Total Liabilities and Net Assets

\$ 10,526,500 \$ 8,996,212

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

**For the Year Ended December 31,
(With Comparative Totals for 2008)**

	Unrestricted	Temporarily Restricted	2009 Total	2008 Total
Support and revenues:				
Individual contributions	\$ 308,869	\$ 396,140	\$ 705,009	\$ 994,024
Government grants	188,457	-	188,457	223,974
Foundations and corporate contributions	203,437	1,405,066	1,608,503	2,796,793
Schools and community groups	35,521	27,000	62,521	55,564
Special events, net of \$56,172 direct expenses	143,053	-	143,053	152,062
In-kind contributions	194,947	-	194,947	283,857
Interest and dividend income	4,857	8,670	13,527	61,308
Realized gain on sale of investments	3,087	645	3,732	25,754
Unrealized loss on investments	(2,957)	-	(2,957)	(39,578)
Miscellaneous Income	6,062	-	6,062	-
Net assets released from restrictions	549,197	(549,197)	-	-
Total support and revenues	1,634,530	1,288,324	2,922,854	4,553,758
Program expenses:				
Food service programs	636,904	-	636,904	656,473
Social and basic program services	562,057	-	562,057	536,966
Total program expenses	1,198,961	-	1,198,961	1,193,439
Supporting services:				
Management and general	95,883	-	95,883	150,860
Fundraising	154,373	-	154,373	120,752
Total supporting services	250,256	-	250,256	271,612
Total expenses	1,449,217	-	1,449,217	1,465,051
Change in net assets	185,313	1,288,324	1,473,637	3,088,707
Net assets, beginning of year	2,604,620	3,971,829	6,576,449	3,487,742
Net assets, end of year	\$ 2,789,933	\$ 5,260,153	\$ 8,050,086	\$ 6,576,449

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31,
(With Comparative Totals for 2008)

	Program Services		Supporting Services		2009	2008
	Food Service Programs	Social and Basic Program Services	Management and General	Fundraising	Total	Total
Salaries	\$ 173,987	\$ 291,094	\$ 44,097	\$ 58,479	\$ 102,576	\$ 530,441
Payroll taxes and fringe benefits	38,269	65,799	8,550	14,467	23,017	121,122
	212,256	356,893	52,647	72,946	125,593	651,563
Food	328,556	2,192	3,408	27	3,435	337,170
Repairs and maintenance	6,613	4,193	700	538	1,238	12,481
Equipment rental	982	1,719	133	208	341	4,717
Program related expense	2,686	19,872	1,771	331	2,102	25,874
Professional fees	-	40,310	16,170	2,025	18,195	85,107
Occupancy and utilities	14,197	19,284	1,877	2,977	4,854	46,017
Telephone	3,251	6,766	617	1,308	1,925	9,527
Supplies	28,582	57,311	586	256	842	137,382
Printing and copying	2,266	2,923	629	3,998	4,627	5,849
Office and miscellaneous expense	2,252	7,592	1,838	1,305	3,143	39,965
Postage and messenger	1,452	2,038	412	1,221	1,633	5,013
Computer	2,796	3,720	614	748	1,362	4,889
Conferences and training	906	4,284	1,464	237	1,701	6,087
Insurance	15,298	19,814	2,067	3,302	5,369	24,112
Service fees	225	301	8,728	46	8,774	11,038
Depreciation	14,586	12,845	2,222	-	2,222	27,830
Bad debt and increase in allowance for doubtful accounts	-	-	-	62,900	62,900	30,430
	\$ 636,904	\$ 562,057	\$ 95,883	\$ 154,373	\$ 250,256	\$ 1,449,217
2008 totals	\$ 656,473	\$ 536,966	\$ 150,860	\$ 120,752	\$ 271,612	\$ 1,465,051

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

PART OF THE SOLUTION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

**For the Year ended December 31,
(With Comparative Totals for 2008)**

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 1,473,637	\$ 3,088,707
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Unrealized loss on investments	2,957	39,578
Realized gain on investments	(3,732)	(25,754)
Donated marketable securities	(43,975)	(117,526)
Bad debt and increase in allowance for doubtful accounts	62,900	30,430
Contributions restricted for acquisition and renovation of building	(1,224,898)	(3,014,293)
Depreciation	29,653	27,830
Receipt of in-kind capitalized office equipment	(39,539)	-
Changes in assets and liabilities		
(Increase) decrease in:		
Contributions and grants receivable	(89,570)	(226,249)
Prepaid expenses and other assets	(10,070)	7,917
Security deposit	-	(966)
Decrease in:		
Accounts payable and accrued expenses	5,805	(509)
Net cash provided by (used in) operating activities	163,168	(190,835)
Cash flows from investing activities:		
Purchase of property and equipment	(25,076)	(5,559)
Purchase of construction in progress	(473,837)	(2,379,228)
Purchase of investments	(2,758,802)	(2,309,091)
Proceeds from sale of investments	2,803,552	3,898,172
Net cash used in investing activities	(454,163)	(795,706)
Cash flows from financing activities:		
Proceeds from note payable	50,847	1,781,157
New Market Tax Credit deposit	(35,000)	-
Contributions restricted for acquisition and renovation of building	1,224,898	1,297,686
Net cash provided by financing activities	1,240,745	3,078,843
Net increase in cash and cash equivalents	949,750	2,092,302
Cash and cash equivalents, beginning of year	3,382,113	1,289,811
Cash and cash equivalents, end of year	\$ 4,331,863	\$ 3,382,113

Supplemental Disclosures of Cash Flow Information:

Non-cash transactions:

Unrealized loss on investments	\$ 2,957	\$ 39,578
Cash paid for interest	\$ 186,154	\$ 147,206

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

PART OF THE SOLUTION, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

1. NATURE OF THE ORGANIZATION:

Part of the Solution, Inc. and Affiliate (the "Organization") provides various food service and social service program support to those in need.

Part of the Solution, Inc. ("POTS") was founded in 1982. POTS is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and has been held to be a publicly supported organization and not a private foundation under Section 509(a). POTS's 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, 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 under Section 501(c)(3) of the Internal Revenue Code and has received approval to be held as a publicly supported organization and not a private foundation under Section 509(a).

The Organization's signature programs are the Food Service Programs and the Social and Basic Program Services:

Food Service Programs – This program is funded by a combination of individual, corporate, foundation and government income and 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. The Food Service Programs also consist of a soup kitchen that is open to all those in need that pass through the doors of the Organization.

Social and Basic 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

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements include the accounts of POTS and its controlled affiliate POTS Building for the Future (PBFF) in accordance with FASB Accounting Standards Codification, Not-for-Profit Entities - Consolidation. All significant intercompany accounts and transactions have been eliminated.

The classification of the Organization's net assets and its support, revenue 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,

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December 31, 2009

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.

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which summarized information was derived.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments purchased with original maturities of three months or less from the date of acquisition as cash and cash equivalents. A portion of cash and cash equivalents is comprised of restricted cash.

Investments

Investments are recorded at fair value based upon quoted market prices. Realized gains or losses are recognized based on the first-in, first-out, or the specific-identification method. Interest and dividends earned are unrestricted unless restricted by the donor.

Donated Securities

It is the intention of the Organization to sell all gifts of public securities upon receipt or as soon thereafter as possible.

Contributions and Grants Receivable

Contributions and grants receivable represent unconditional promises to give by donors. As of December 31, 2009, the Organization had \$2,293,431 of contributions receivable which will be received within five years and are recorded at net realizable

PART OF THE SOLUTION, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS December 31, 2009

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. For the year ended December 31, 2009, the allowance for doubtful accounts was \$62,898.

Contributions and grants receivable that are due in more than one year are discounted to present value using the applicable risk-free rate of return (5%) on the date that the contribution is made. For the year ended December 31, 2009, the discount for present value was \$44,899.

Property and Equipment

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.

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. No impairment losses were recognized for the year ended December 31, 2009.

Donated Services

The Organization receives contributed services that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided they meet the criteria for recognition.

Revenue Recognition

Government grants are recognized as revenue to the extent of expenditures or based on the achievement of performance milestones. The disbursements received 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

Contributions of donated non-cash assets are recorded at their values based on market values of items 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. For example, food and facility rental are considered direct costs of the special event.

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Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

New Accounting Pronouncements

- A. Effective December 15, 2009, the Organization adopted the standard which 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 financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

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.

The Organization classifies interest on underpayments of income tax as "Interest Expense," and classifies 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 fiscal year ended December 31, 2009. 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 no longer subject to income tax examinations by the Internal Revenue Service or New York State for returns filed before 2006.

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- B. Effective September 1, 2009, the Organization adopted the provisions of the 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 Organizations 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- Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- 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).

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December 31, 2009

3. CONTRIBUTIONS RECEIVABLE:

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

As of December 31, 2009, \$4,974,084 was pledged of which \$2,900,620 was received by the Organization prior to the end of the fiscal year. Amounts received and pledged have been recorded as temporarily restricted income since the objectives of the plan have not yet been completed. Included in these pledges is \$1,000,000 that is conditional on the Organization entering into a New Markets Tax Credit transaction to construct the new facility. These pledge conditions were met in the subsequent period.

In addition to the unconditional promises to give as of December 31, 2009 there were conditional grants totaling \$100,000 restricted to program expenses. The grant is conditional on the Organization meeting a number of criteria. Accordingly, the \$100,000 has not been recognized in the accompanying financial statements.

Unconditional promises to give have been recorded at present values at December 31, 2009. Unless material, receivables due in more than one year have been discounted to present values using the applicable risk-free rate of return (5%) on the date that the contribution is made. The receivables are recorded as follows:

Capital campaign	\$	2,038,628
Less: allowance for doubtful accounts		(62,898)
Other receivables		362,600
Total		2,338,330
Less: discount to present value		(44,899)
Present value	\$	2,293,431
Amounts due in:		
Less than one year	\$	1,754,301
One to five years		539,130
Total	\$	2,293,431

4. FAIR VALUE MEASUREMENTS:

The Organization's cash and cash equivalents consist of a money market fund and a mutual fund. The funds are classified as restricted on the statement of financial position.

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These assets are valued as follows under the fair value hierarchy:

December 31, 2009	Total	Quoted Market Prices in Active Market Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 1,545,884	\$ 1,545,884	\$ -	\$ -
Money market funds	1,030,127	-	1,030,127	-
Mutual funds	1,755,852	-	1,755,852	-
Interest reserve	242,705	242,705	-	-
Contributions and grants receivable	2,293,431	-	-	2,293,431
	\$ 6,867,999	\$ 1,788,589	\$ 2,785,979	\$ 2,293,431

Contributions and grants receivable that are due in more than one year are discounted to present value using the applicable risk-free rate of return (5%) on the date that the contribution is made.

As of December 31, 2009, the money market funds are considered to be dollar for dollar money market accounts, based on quoted market prices, based on statements received from a broker.

Mutual funds are based on quoted market prices based on statements received from a broker.

Contributions and grants receivable was comprised as follows for the year ended December 31, 2009:

Fair value as of December 31, 2008	\$ 2,266,759
Current period contributions	2,564,490
Current period payment of pledges	(2,430,021)
Adjustment for allowance	(62,898)
Adjustment for discount	(44,899)
Fair value as of December 31, 2009	\$ 2,293,431

PART OF THE SOLUTION, INC. AND AFFILIATE

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December 31, 2009

5. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of December 31, 2009:

		Estimated Useful Life
Land	\$ 35,000	N/A
Building and improvements	557,987	39 1/2 years
Office equipment	200,427	3-7 years
Furniture and fixtures	49,902	3-5 years
Automobiles	15,900	5 years
Total property and equipment	859,216	
Less: accumulated depreciation	(621,298)	
Net property and equipment	\$ 237,918	
<hr/>		
Construction-in-Progress	\$ 3,367,832	N/A
Total Construction-in-Progress	\$ 3,367,832	

Depreciation expense for the year ended December 31, 2009 was \$29,653.

Construction-in-progress at December 31, 2009 is stated at cost and not depreciated until placed into service. The construction-in-progress represents a temporary capitalization of various costs, including interest costs associated with the construction of a new facility. When the constructed asset is placed into service, accumulated construction-in-progress costs are capitalized and depreciated within their respective component categories.

The Organization is in the process of renovating a new facility to be used for operations, which is scheduled to be completed in 2010. As of December 31, 2009, the Organization has incurred and capitalized in construction-in-progress \$3,367,832. The estimated cost to be incurred in 2010 to complete construction of the facility is approximately \$3,392,000.

6. NOTE PAYABLE:

Pursuant to a purchase of property during the fiscal year ended December 31, 2008, POTS entered into an acquisition loan with a financial institution. The outstanding principal at December 31, 2009 is \$2,382,004 with interest accrued at a fixed interest rate of 7.75% per annum. The loan payments are interest only until a principal pay down of \$1,000,000 is required, which occurs at the earlier of the receipt of funds raised in excess of construction costs during the Capital Campaign or 24 months from February 27, 2008. The remaining principal is due at maturity in February 2011. The loan is secured by \$1,000,000 in a control account (which is part of cash and cash equivalents – restricted) held at a financial institution, as well as the property newly purchased, and the building POTS currently occupies and owns at 2763 Webster Avenue. POTS has established an interest reserve account with the lender for \$550,000 that is to be used for three years of interest payments. The balance of prepaid interest held in cash-escrow at December 31, 2009 is \$242,705. Subsequent to December 31,

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2009, the entire principal balance outstanding was repaid through proceeds of a New Markets Tax Credit transaction.

7. IN-KIND CONTRIBUTIONS:

During the year ended December 31, 2009, the Organization recognized total in-kind donations of \$155,408 and this amount is reflected in both income and expenses in the accompanying financial statements. In addition, the Organization recognized an in-kind donation of office equipment for \$39,539 and this amount is reflected as income and as a capitalized asset. Volunteers are not included in the in-kind, except for legal services which are provided by trained legal advocates. In-kind goods consist of clothing, food supplies, hygiene products, small appliances and other miscellaneous items.

8. PENSION PLAN:

The Organization maintains an IRS Section 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 year ended December 31, 2009, the total pension expense consisting of employer contributions totaled \$17,423.

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are purpose and time restricted and consist of the following at December 31, 2009:

Purpose:	
Use restrictions – capital improvements	\$ 4,976,358
Time and use restrictions – program expenses	283,795
	<u>\$ 5,260,153</u>

Net assets were released from restrictions either by incurring expenses or by the passage of time thus satisfying the restricted purposes for the year ended December 31, 2009 as follows:

Time and use restrictions – program expenses	\$ 547,014
Use restrictions – capital improvement expenses	2,183
	<u>\$ 549,197</u>

- 10. CONCENTRATIONS:**
- A. For the year ended December 31, 2009, a single donor contributed approximately \$881,000 to the Organization which amounted to approximately 30% of the Organization's total revenue for the year.
- B. Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts in two financial institutions that exceeded the Federal Deposit Insurance Corporation ("FDIC") limits by approximately

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\$3,884,000 as of December 31, 2009. Management believes that the credit risk related to these accounts is minimal. Accounts at each institution are insured by the FDIC up to \$250,000 through 2013.

- 11. COMMITMENTS AND CONTINGENCIES:** The Organization leases office equipment under a non-cancellable operating lease requiring future minimum payments as follows:

Year ending December 31,		
2010	\$	2,898
	\$	2,898

Lease expense for the year ended December 31, 2009 amounted to \$8,833.

At December 31, 2009, the Organization has commitments for architectural services to design a renovated facility totaling approximately \$50,000. At December 31, 2009, the Organization has commitments for construction service from a general contractor to renovate a facility totaling approximately \$3,360,000.

- 12. RISK AND UNCERTAINTIES:** The Organization has money market funds and treasury bills 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, 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 Statement of Financial Position.

- 13. RECLASSIFICATIONS** Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on changes in net assets as previously reported.

- 14. SUBSEQUENT EVENT:** Subsequent to the balance sheet date of December 31, 2009, in March 2010, POTS entered into various agreements for the purpose of participating in the Federal New Markets Tax Credit program (NMTC). 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 in the transaction. As the Leveraged Lender, PBFF received charitable contributions raised by POTS, and lent them to a NMTC investor. The NMTC investor has used the contributions to leverage its equity investment and made a loan to POTS in the amount of \$8,536,000. The loan carries interest at 1% per annum to 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. Beginning on December 1, 2018, POTS will make annual level payments on the loan in an amount sufficient to repay principal and interest over the amortization period of 33 years beginning April 1, 2017. In March 2017, an affiliate of the NMTC investor has

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the option (the "Put") to sell its interest in the loan for the sum of \$1,000 to PBFF. Should the Put not be exercised, PBFF has the right to purchase (the "Call") the loans at the then fair market value. It is anticipated that the Put will be exercised.

Subsequent to the balance sheet date of December 31, 2009, as part of the NMTC transaction, PBFF entered into non-recourse loans with various POTS' individual Directors. The loans total \$1,150,000, have no prepayment penalty, accrue interest at 3.5% per annum or the Applicable Federal Rate published by the U.S. Internal Revenue Service and mature at various dates through August 12, 2017 and September 9, 2017.