PART OF THE SOLUTION
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016
(With Summarized Comparative Totals for December 31, 2015)

PART OF THE SOLUTION AND AFFILIATE

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Part of the Solution and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Part of the Solution and Affiliate (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Part of the Solution and Affiliate as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information 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.

MBAF CPAs, LLC

New York, NY
April 26, 2017

PART OF THE SOLUTION AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR DECEMBER 31, 2015)

ASSETS	**2016**	**2015**
Cash and cash equivalents	$ 2,988,847	$ 2,940,611
Cash and cash equivalents - restricted	35,519	101,336
Investments	780,599	687,655
Contributions and grants receivable, net	2,012,793	829,709
Prepaid expenses and other assets	70,209	113,201
Note receivable	6,318,294	6,318,294
Property and equipment, net	6,789,377	7,025,814
Deferred New Markets Tax Credit		
Issuance Costs ("NMTC"), net	257,221	264,973
	$ 19,252,859	**$ 18,281,593**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 120,126	$ 115,372
Deferred revenue	16,345	32,785
Note payable - fund	8,536,000	8,536,000
	8,672,471	8,684,157
NET ASSETS		
Unrestricted	8,908,843	9,012,213
Temporarily restricted	1,671,545	585,223
	10,580,388	9,597,436
	$ 19,252,859	**$ 18,281,593**

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

PART OF THE SOLUTION AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
SUPPORT AND REVENUES				
Contributions	$ 808,871	$ 1,046,716	$ 1,855,587	$ 615,470
Government grants	658,614	183,697	842,311	583,337
Foundations and corporate contributions	300,741	742,000	1,042,741	1,542,820
Special events, net of direct expenses of $220,850 and $158,458 for 2016 and 2015, respectively	534,842	-	534,842	527,685
In-kind contributions	450,693	-	450,693	408,451
Interest and dividend income	98,017	-	98,017	101,408
Realized loss on sale of investments	(5,688)	-	(5,688)	(50,861)
Unrealized gain (loss) on investments	27,000	-	27,000	(12,477)
Miscellaneous income	7,047	-	7,047	10,467
Net assets released from restrictions	886,091	(886,091)	-	-
	3,766,228	1,086,322	4,852,550	3,726,300
PROGRAM EXPENSES				
Food service programs	1,403,305	-	1,403,305	1,263,400
Day-to-day program services	358,263	-	358,263	366,379
NSS Progams	1,303,115	-	1,303,115	1,045,597
	3,064,683	-	3,064,683	2,675,376
Management and general	445,338	-	445,338	472,784
Fundraising	359,577	-	359,577	303,544
	3,869,598	-	3,869,598	3,451,704
CHANGE IN NET ASSETS	(103,370)	1,086,322	982,952	274,596
NET ASSETS - BEGINNING OF YEAR	9,012,213	585,223	9,597,436	9,322,842
NET ASSETS - END OF YEAR	**$ 8,908,843**	**$ 1,671,545**	**$ 10,580,388**	**$ 9,597,438**

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

PART OF THE SOLUTION AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015)

	Program Services				Supporting Services				
	Food Service Programs	Day-to-Day Program Services	NSS Programs	Total	Management and General	Fundraising	Total	2016 Total	2015 Total
FUNCTIONAL EXPENSES									
Salaries	$ 248,025	$ 79,382	$ 676,316	$ 1,003,723	$ 217,822	$ 252,551	$ 470,373	$ 1,474,096	$ 1,319,616
Payroll taxes and fringe benefits	61,360	24,158	177,997	263,515	60,058	55,174	115,232	378,747	298,461
Food	873,897	316	13,887	888,100	1,289	348	1,637	889,737	742,463
Repairs and maintenance	18,717	11,821	15,806	46,344	5,050	1,431	6,481	52,825	65,138
Equipment rental	1,655	596	3,842	6,093	1,018	1,013	2,031	8,124	8,708
Program related expense	604	79,021	131,391	211,016	184	111	295	211,311	94,344
Professional fees	9,202	3,290	33,959	46,451	45,569	2,382	47,951	94,402	139,713
Occupancy and utilities	23,928	21,308	30,126	75,362	9,505	2,990	12,495	87,857	101,798
Telephone	2,000	643	6,622	9,265	1,286	2,340	3,626	12,891	13,669
Supplies	25,216	20,858	13,746	59,820	983	1,180	2,163	61,983	60,751
Printing and copying	2,012	258	3,851	6,121	600	10,107	10,707	16,828	16,008
Office and miscellaneous expense	1,207	358	3,791	5,356	4,236	1,025	5,261	10,617	8,669
Postage and messenger	918	263	2,454	3,635	638	1,576	2,214	5,849	6,323
Computer	7,089	2,597	18,667	28,353	4,732	9,974	14,706	43,059	41,643
Conferences and training	1,305	401	10,288	11,994	1,171	1,903	3,074	15,068	17,480
Insurance	17,269	13,851	28,720	59,840	7,481	3,854	11,335	71,175	61,857
Service fees	-	131	100	231	32,203	300	32,503	32,734	36,733
Depreciation and amortization	72,257	65,688	87,272	225,217	35,929	7,507	43,436	268,653	282,694
Bad debt expense	-	-	-	-	1,306	-	1,306	1,306	3,300
Interest expense	17,498	15,912	21,144	54,554	6,818	1,820	8,638	63,192	63,192
NMTC compliance fees	19,146	17,411	23,136	59,693	7,460	1,991	9,451	69,144	69,144
Total expenses - 2016	**$ 1,403,305**	**$ 358,263**	**$ 1,303,115**	**$ 3,064,683**	**$ 445,338**	**$ 359,577**	**$ 804,915**	**$ 3,869,598**	
Total expenses - 2015	**$ 1,263,400**	**$ 366,379**	**$ 1,045,597**	**$ 2,675,376**	**$ 472,784**	**$ 303,544**	**$ 776,328**		**$ 3,451,704**

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

PART OF THE SOLUTION AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	$ 982,952	$ 274,594
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized (gain) loss on investment	(27,000)	12,477
Realized loss on investment, net	5,688	50,861
Donated marketable securities	(158,813)	(132,164)
Bad debt expense	1,306	3,300
Depreciation and amortization	268,653	282,694
Changes in operating assets and liabilities:		
Contribution and grants receivable	(1,184,390)	(291,901)
Prepaid expenses and other assets	42,992	(50,773)
Accounts payable and accrued expenses	4,754	13,480
Deferred revenue	(16,440)	31,035
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(80,298)**	**193,603**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(24,464)	(28,880)
Purchase of investments	(301,424)	(825,404)
Proceeds from sale of investments	234,750	830,409
Proceeds from sale of donated investments, net of fees	153,855	132,543
NET CASH PROVIDED BY INVESTING ACTIVITIES	**62,717**	**108,668**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,581)	302,271
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,041,947	2,739,676
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 3,024,366**	**$ 3,041,947**
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 63,192	$ 63,192
Income taxes	$ -	$ -
Cash and Cash Equivalents Consist of:		
Cash and cash equivalents	$ 2,988,847	$ 2,940,611
Cash and cash equivalents - restricted	35,519	101,336
Total	$ 3,024,366	$ 3,041,947

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. NATURE OF THE ORGANIZATION

Part of the Solution ("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 following:

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 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.

Next-Step Services (NSS) – This program consists of a legal aid program, a case management program and an afterschool/family stability program called the POTS Family Club, that provides benefits access/retention and stabilizing services for those in need.

Day-to-Day Program Services – This program consists of a shower program, 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 ("ASC"), *Not-for-Profit Entities – Consolidation* (Topic ASC 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:

<u>Permanently Restricted</u> – 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

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 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 equivalents.

Cash and cash equivalents - restricted is comprised of restricted cash for funding to pay New Markets Tax Credit annual fees payable through the end of the seven year compliance period.

Investments

Investments are recorded at fair value. Realized gains or losses are recognized based on the first-in, first-out method. Dividends on securities are recorded on the ex-dividend date.

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, 2016 and 2015, the Organization received $158,813 and $132,164, respectively, in donated securities.

Contributions and Grants Receivable

Contributions and grants receivable represent unconditional promises to give by donors. At December 31, 2016 and 2015, the Organization had contributions receivable (net of allowance for uncollectable contributions and discount to present value) of $2,012,793 and $829,709, respectively, which are recorded at net realizable value. 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 a rate of 2.5% on the date that the contribution is made.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized for the years ended December 31, 2016 and 2015.

Revenue Recognition

Government grants are recognized as revenue to the extent that related 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 consolidated 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 26, 2017, 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, 2015, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization files informational returns in the United States federal and New York State jurisdictions. 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, disclosure, and transition.

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 income 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, 2016. 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 is generally no longer subject to examinations by the Internal Revenue Service or New York State for returns filed before 2013.

Fair Value Measurements and Fair Value - Definition and Hierarchy

The Organization follows the accounting standard related to fair value measurements of its financial assets and liabilities. 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 inputs 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Note Receivable Ratings and Loss Reserve

The Organization periodically reviews its note receivable for credit quality. This review may include the following factors: the capacity of the project cash flows; collateral; the borrower's assets and overall financial strength; the borrower's cash flow history and projections; and the borrower's management and other intangibles. 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, 2016 and 2015, no reserves were required.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

Recent Accounting Pronouncements

Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The Organization is currently evaluating the effect the update will have on its financial statements.

Amendments to the Consolidation Analysis
In February 2015, the FASB issued an accounting standards update that amends existing requirements applicable to reporting entities that are required to evaluate whether certain legal entities should be consolidated. The update is effective on a modified or full retrospective basis for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted including for an interim period. The Organization is currently evaluating the effect the update will have on its financial statements.

Presentation of Financial Statements for Not-for-Profit Entities
In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the effect the update will have on its financial statements.

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 related costs.

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 2.5% on the date that the contribution is made. The receivables are recorded as follows at December 31:

	2016	2015
Capital campaign	$ 1,056,000	$ -
Other receivables	992,727	829,709
	2,048,727	829,709
Less:		
Discount to present value	(35,934)	-
	$ 2,012,793	$ 829,709
Amounts due in:		
Less than one year	$ 1,789,560	$ 829,709
One to five years	223,233	-
	$ 2,012,793	$ 829,709

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2016	2015	Estimated Useful Life
Land	$ 503,998	$ 503,998	N/A
Building and improvements	7,777,340	7,763,933	39 1/2 years
Office equipment	138,023	136,523	3-7 years
Furniture and fixtures	277,567	268,010	3-5 years
Automobiles	33,497	33,497	5 years
Total property and equipment	8,730,425	8,705,961	
Less: accumulated depreciation	(1,941,048)	(1,680,147)	
Net property and equipment	**$ 6,789,377**	**$ 7,025,814**	

Depreciation expense for the years ended December 31, 2016 and 2015 was $260,901 and $274,942, respectively.

5. INVESTMENTS

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, 2016	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 452,114	$ 452,114	$ -	$ -
Mutual funds - fixed income	295,492	295,492	-	-
Mutual funds - other	32,993	32,993	-	-
	$ 780,599	**$ 780,599**	**$ -**	**$ -**

December 31, 2015	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	$ 418,931	$ 418,931	$ -	$ -
Mutual funds - fixed income	121,298	121,298	-	-
Mutual funds - other	147,426	147,426	-	-
	$ 687,655	**$ 687,655**	**$ -**	**$ -**

5. INVESTMENTS (CONTINUED)

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, are as follows:

December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Donated Stock not yet Sold	Fair Value
Mutual funds	$ 768,242	$ 7,366	$ -	$ 4,991	**$ 780,599**

December 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Donated Stock not yet Sold	Fair Value
Mutual funds	$ 707,289	$ -	$ (19,634)	$ -	**$ 687,655**

The following reflects changes to investments at fair value at December 31:

	2016	2015
Fair value, beginning of year	$ 687,655	$ 756,377
Purchases	301,424	825,404
Sales, net of fees	(388,605)	(962,952)
Realized and unrealized (loss) gain	21,312	(63,338)
Contributed securities	158,813	132,164
Fair value, end of year	**$ 780,599**	**$ 687,655**

Mutual funds are valued on the last day of the year based upon publicly 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 beginning with 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 of December 31, 2016 and 2015.

6. NOTE RECEIVABLE, NOTE PAYABLE - FUND, AND NEW MARKETS TAX CREDIT TRANSACTION (CONTINUED)

The note receivable provides for interest at 1% per annum through maturity on March 19, 2050. The interest on the note is due by PBFF annually in arrears through the end of the immediately preceding month, beginning December 1, 2010.

The NMTC investor is owned 99.99% by JP Morgan Chase 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 collateralized 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. The entity that holds the note payable – fund, is indirectly the same entity that owes the note receivable.

POTS is required to comply with various federal NMTC regulations and contractual provisions that apply to the NMTC arrangements and has agreed to indemnify JP Morgan Chase Bank for any loss or recapture of NMTCs.

For the years ended December 31, 2016 and 2015, total issuance costs to the Organization related to the NMTC transaction amounted to $309,866, which is reflected as new markets tax credit issuance costs on the consolidated statement of financial position. For each of the years ended December 31, 2016 and 2015, amortization expense was $7,752. Accumulated amortization was $52,645 and $44,893 at December 31, 2016 and 2015, respectively.

On March 20, 2017, JP Morgan Chase Bank exercised its Put option to sell its interest in NMTC investor to PBFF for $1,000. As a consequence, PBFF owns the NMTC investor and is the counterparty for the note receivable, note payable – fund, and deferred NMTC costs presented on the accompanying consolidated statement of financial position. The effects of this transaction will be reflected in the Organization’s 2017 financial statements. The Organization is currently evaluating the effect of this transaction on its future financial statements.

7. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2016 and 2015, the Organization recognized total in-kind donations of $450,693 and $408,451, respectively. These amounts are reflected in both support and expenses in the accompanying consolidated financial statements. The value of services provided by volunteers is not included in these figures. In-kind donations consist of legal services, clothing, food supplies, hygiene products, small appliances, and other miscellaneous items. The Organization received donated stock totaling $158,813 and $132,164 during the years ended December 31, 2016 and 2015, respectively, which were measured at fair market value on the date of receipt.

8. 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 may make a discretionary contribution of 4% of each eligible employee’s salary on the anniversary of his or her hire date. During the years ended December 31, 2016 and 2015, the total retirement expense consisting of employer contributions totaled $42,259 and $33,697, respectively.

9. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Use restrictions - program expenses	$ 7,486	$ 33,975
Use restrictions - capital campaign	1,030,066	-
Time and use restrictions - program expenses	633,993	551,248
	$ 1,671,545	**$ 585,223**

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, 2016 as follows:

Use restrictions - program expenses	$ 210,139
Time and use restrictions - program expenses	675,952
	$ 886,091

10. CONCENTRATIONS

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.

For the years ended December 31, 2016 and 2015, a single donor contributed $300,000 and $330,000, respectively, to the Organization which amounted to approximately 8% and 9% of the Organization's total support and revenue for each of the respective years.

Three vendors account for approximately 64% and 56% of accounts payable and accrued expenses at December 31, 2016 and 2015, respectively.

Five major sources accounted for approximately 89% and 82% of contributions and grants receivable at December 31, 2016 and 2015, respectively.

11. COMMITMENTS AND CONTINGENCIES

The Organization leases office equipment under a non-cancellable operating lease requiring future minimum payments as follows for the years ending December 31:

2017	$ 7,740
2018	7,740
2019	3,870
	$ 19,350

Lease expense for the years ended December 31, 2016 and 2015 amounted to $8,124 and $8,708, respectively.

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 for the year ended December 31, 2017 are $33,000.

The total NMTC compliance fees expense for each of the years ended December 31, 2016 and 2015 amounted to $69,144.

12. 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 of employees, and natural disasters. The Organization maintains commercial insurance to help protect itself against such risks.

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.

SUPPLEMENTARY INFORMATION

PART OF THE SOLUTION AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS	POTS	PBFF	Eliminations	2016	2015
Cash and cash equivalents	$ 2,742,444	$ 246,403	$ -	$ 2,988,847	$ 2,940,611
Cash and cash equivalents - restricted	35,519	-	-	35,519	101,336
Investments	4,991	775,608	-	780,599	687,655
Contributions and grants receivable, net	992,727	1,020,066	-	2,012,793	829,709
Prepaid expenses and other assets	64,943	5,266	-	70,209	113,201
Note receivable	-	6,318,294	-	6,318,294	6,318,294
Due from PBFF	91,649	-	(91,649)	-	-
Property and equipment, net	6,789,377	-	-	6,789,377	7,025,814
Deferred New Markets Tax Credit Issuance Costs ("NMTC"), net	257,221	-	-	257,221	264,973
	$ 10,978,871	**$ 8,365,637**	**$ (91,649)**	**$ 19,252,859**	**$ 18,281,593**
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	$ 120,126	$ -	$ -	$ 120,126	$ 115,372
Deferred revenue	16,345	-		16,345	32,785
Note payable - fund	8,536,000	-	-	8,536,000	8,536,000
Due to POTS	-	91,649	(91,649)	-	-
	8,672,471	91,649	(91,649)	8,672,471	8,684,157
NET ASSETS					
Unrestricted	1,664,921	7,243,922	-	8,908,843	9,012,213
Temporarily restricted	641,479	1,030,066	-	1,671,545	585,223
	2,306,400	8,273,988	-	10,580,388	9,597,436
	$ 10,978,871	**$ 8,365,637**	**$ (91,649)**	**$ 19,252,859**	**$ 18,281,593**

See independent auditor's report.

PART OF THE SOLUTION AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	POTS		PBFF		Eliminations		Total			
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
SUPPORT AND REVENUES										
Contributions	$ 808,871	$ 16,650	$ -	$ 1,030,066		$ -	$ 808,871	$ 1,046,716	$ 1,855,587	$ 615,470
Government grants	658,614	183,697	-	-	-	-	658,614	183,697	842,311	583,337
Foundations and corporate contributions	363,924	742,000	-	-	(63,183)	-	300,741	742,000	1,042,741	1,542,820
Special events, net of direct expenses of $220,850 and $158,458 for 2016 and 2015, respectively	534,842	-	-	-	-	-	534,842	-	534,842	527,685
In-kind contributions	450,693	-	-	-	-	-	450,693	-	450,693	408,451
Interest and dividend income	357	-	97,660	-	-	-	98,017	-	98,017	101,408
Realized gain (loss) on sale of investments	33	-	(5,721)	-	-	-	(5,688)	-	(5,688)	(50,861)
Unrealized gain (loss) on investments	-	-	27,000	-	-	-	27,000	-	27,000	(12,477)
Miscellaneous income	6,299	-	748	-	-	-	7,047	-	7,047	10,467
Net assets released from restrictions	886,091	(886,091)	-	-	-	-	886,091	(886,091)	-	-
	3,709,724	56,256	119,687	1,030,066	(63,183)	-	3,766,228	1,086,322	4,852,550	3,726,300
PROGRAM EXPENSES										
Food service programs	1,403,305	-	-	-	-	-	1,403,305	-	1,403,305	1,263,400
Day-to-day program services	358,263	-	-	-	-	-	358,263	-	358,263	366,379
NSS Progams	1,303,115	-	-	-	-	-	1,303,115	-	1,303,115	1,045,597
Unallocated payments to affiliated organization	-	-	63,183	-	(63,183)	-	-	-	-	-
	3,064,683	-	63,183	-	(63,183)	-	3,064,683	-	3,064,683	2,675,376
Management and general	424,556	-	20,782	-	-	-	445,338	-	445,338	472,784
Fundraising	359,577	-	-	-	-	-	359,577	-	359,577	303,544
	3,848,816	-	83,965	-	(63,183)	-	3,869,598	-	3,869,598	3,451,704
CHANGE IN NET ASSETS	(139,092)	56,256	35,722	1,030,066	-	-	(103,370)	1,086,322	982,952	274,596
NET ASSETS - BEGINNING OF YEAR	1,804,013	585,223	7,208,200	-	-	-	9,012,213	585,223	9,597,436	9,322,842
NET ASSETS, END OF YEAR	**$ 1,664,921**	**$ 641,479**	**$ 7,243,922**	**$ 1,030,066**	**$ -**	**$ -**	**$ 8,908,843**	**$ 1,671,545**	**$ 10,580,388**	**$ 9,597,438**

See independent auditor's report.

PART OF THE SOLUTION AND AFFILIATE
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	POTS							PBFF				
	Program Services				Supporting Services			Supporting Services				
	Food Service Programs	Day-to-Day Program Services	NSS Programs	Total	Management and General	Fundraising	Total	Management and General	Fundraising	Total	2016 Total	2015 Total
FUNCTIONAL EXPENSES												
Salaries	$ 248,025	$ 79,382	$ 676,316	$ 1,003,723	$ 217,822	$ 252,551	$ 1,474,096	$ -	$ -	$ -	$ 1,474,096	$ 1,319,616
Payroll taxes and fringe benefits	61,360	24,158	177,997	263,515	60,058	55,174	378,747	-	-	-	378,747	298,461
Food	873,897	316	13,887	888,100	1,289	348	889,737	-	-	-	889,737	742,463
Repairs and maintenance	18,717	11,821	15,806	46,344	5,050	1,431	52,825	-	-	-	52,825	65,138
Equipment rental	1,655	596	3,842	6,093	1,018	1,013	8,124	-	-	-	8,124	8,708
Program related expense	604	79,021	131,391	211,016	184	111	211,311	-	-	-	211,311	94,344
Professional fees	9,202	3,290	33,959	46,451	34,569	2,382	83,402	11,000	-	11,000	94,402	139,713
Occupancy and utilities	23,928	21,308	30,126	75,362	9,505	2,990	87,857	-	-	-	87,857	101,798
Telephone	2,000	643	6,622	9,265	1,286	2,340	12,891	-	-	-	12,891	13,669
Supplies	25,216	20,858	13,746	59,820	983	1,180	61,983	-	-	-	61,983	60,751
Printing and copying	2,012	258	3,851	6,121	600	10,107	16,828	-	-	-	16,828	16,008
Office and miscellaneous expense	1,207	358	3,791	5,356	4,236	1,025	10,617	-	-	-	10,617	8,669
Postage and messenger	918	263	2,454	3,635	638	1,576	5,849	-	-	-	5,849	6,323
Computer	7,089	2,597	18,667	28,353	4,732	9,974	43,059	-	-	-	43,059	41,643
Conferences and training	1,305	401	10,288	11,994	1,171	1,903	15,068	-	-	-	15,068	17,480
Insurance	17,269	13,851	28,720	59,840	7,481	3,854	71,175	-	-	-	71,175	61,857
Service fees	-	131	100	231	22,421	300	22,952	9,782	-	9,782	32,734	36,733
Depreciation and amortization	72,257	65,688	87,272	225,217	35,929	7,507	268,653	-	-	-	268,653	282,694
Bad debt expense	-	-	-	-	1,306	-	1,306	-	-	-	1,306	3,300
Interest expense	17,498	15,912	21,144	54,554	6,818	1,820	63,192	-	-	-	63,192	63,192
NMTC compliance fees	19,146	17,411	23,136	59,693	7,460	1,991	69,144	-	-	-	69,144	69,144
Total expenses - 2016	**$ 1,403,305**	**$ 358,263**	**$ 1,303,115**	**$ 3,064,683**	**$ 424,556**	**$ 359,577**	**$ 3,848,816**	**$ 20,782**	**$ -**	**$ 20,782**	**$ 3,869,598**	
Total expenses - 2015	**$ 1,263,400**	**$ 366,379**	**$ 1,045,597**	**$ 2,675,376**	**$ 425,326**	**$ 303,544**	**$ 3,404,246**	**$ 47,458**	**$ -**	**$ 47,458**		**$ 3,451,704**

See independent auditor's report.

PART OF THE SOLUTION AND AFFILIATE
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	POTS	PBFF	Eliminations	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES					
CHANGE IN NET ASSETS	$ (82,836)	$ 1,065,788	$ -	$ 982,952	$ 274,594
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:					
Unrealized (gain) loss on investment	-	(27,000)	-	(27,000)	12,477
Realized (gain) loss on investments, net	(33)	5,721	-	5,688	50,861
Donated marketable securities	(158,813)	-	-	(158,813)	(132,164)
Bad debt expense	1,306	-	-	1,306	3,300
Depreciation and amortization	268,653	-	-	268,653	282,694
Changes in operating assets and liabilities:					
Contributions and grants receivable	(164,324)	(1,020,066)	-	(1,184,390)	(291,901)
Prepaid expenses and other assets	42,993	(1)	-	42,992	(50,773)
Due from PBFF	(81,649)	-	81,649	-	-
Accounts payable and accrued expenses	15,402	(10,648)	-	4,754	13,480
Due to POTS	-	81,649	(81,649)	-	-
Deferred revenue	(16,440)	-	-	(16,440)	31,035
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(175,741)**	**95,443**	**-**	**(80,298)**	**193,603**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	(24,464)	-	-	(24,464)	(28,880)
Purchase of investments	-	(301,424)	-	(301,424)	(825,404)
Proceeds from sale of investments	-	234,750	-	234,750	830,409
Proceeds from sale of donated investments, net of fees	153,855	-	-	153,855	132,543
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**129,391**	**(66,674)**	**-**	**62,717**	**108,668**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(46,350)	28,769	-	(17,581)	302,271
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,824,313	217,634	-	3,041,947	2,739,676
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 2,777,963**	**$ 246,403**	**$ -**	**$ 3,024,366**	**$ 3,041,947**
Supplemental Disclosures of Cash Flow Information:					
Cash paid during the year for:					
Interest	$ 63,192	$ -		$ 63,192	$ 63,192
Income taxes	$ -	$ -		$ -	$ -
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	$ 2,742,444	$ 246,403		$ 2,988,847	$ 2,940,611
Cash and cash equivalents - restricted	$ 35,519	$ -		35,519	101,336
Total				$ 3,024,366	$ 3,041,947

See independent auditor's report.