

**Communitas America, Inc.**

Financial Statements

December 31, 2022 and 2021

## **Independent Auditors' Report**

**Board of Directors**  
**Communitas America, Inc.**

### ***Opinion***

We have audited the accompanying financial statements of Communitas America, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communitas America, Inc. as of December 31, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Communitas America, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, Communitas America, Inc. adopted the Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, using the effective date method with June 8, 2022, as the date of initial adoption. Our opinion is not modified with respect to that matter.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Communitas America, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Communitas America, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Communitas America, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*PKF O'Connor Davies, LLP*

New York, New York  
April 11, 2023

# **Communitas America, Inc.**

## Statements of Financial Position

	December 31,	
	2022	2021
<b>ASSETS</b>		
Cash	\$ 994,019	\$ 1,343,747
Security deposits	18,800	18,800
Grant receivable	25,000	-
Right-of-use asset, net	3,071,915	-
Equipment	32,275	-
Construction in progress	497,029	-
	<u>\$ 4,639,038</u>	<u>\$ 1,362,547</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 29,319	\$ 38,140
Accrued vacation	9,557	13,327
Loan payable	125,000	-
Lease payable	2,820,512	-
Total Liabilities	2,984,388	51,467
 Net assets without donor restrictions	<u>1,654,650</u>	<u>1,311,080</u>
	<u>\$ 4,639,038</u>	<u>\$ 1,362,547</u>

See notes to financial statements

**Communitas America, Inc.**

Statements of Activities

	Year Ended December 31,	
	2022	2021
<b>REVENUE</b>		
Contributions and grants	\$ 1,675,985	\$ 1,001,658
Donated pro-bono legal services	156,052	167,639
Other revenue	<u>2,018</u>	<u>1,979</u>
Total Revenue	<u>1,834,055</u>	<u>1,171,276</u>
<b>EXPENSES</b>		
Program services	993,883	629,236
Management and general	372,707	275,536
Fundraising	<u>123,895</u>	<u>102,676</u>
Total Expenses	<u>1,490,485</u>	<u>1,007,448</u>
Change in Net Assets	343,570	163,828
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Beginning of year	<u>1,311,080</u>	<u>1,147,252</u>
End of year	<u>\$ 1,654,650</u>	<u>\$ 1,311,080</u>

See notes to financial statements

# **Communitas America, Inc.**

## Statement of Functional Expenses Year Ended December 31, 2022

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 426,200	\$ 73,902	\$ 95,731	\$ 595,833
Hell	<u>83,030</u>	<u>14,271</u>	<u>18,487</u>	<u>115,788</u>
Total Salaries and Related Costs	509,230	88,173	114,218	711,621
Advertising and marketing	593	-	-	593
Bank fees	-	115	-	115
Filing fees	500	1,835	-	2,335
Grant expense	109,417	-	-	109,417
Internet expenses	5,155	9,659	751	15,565
Professional and legal fees	32,150	197,421	4,500	234,071
Meals and entertainment	18,654	7,918	-	26,572
Office supplies and software	1,236	2,620	-	3,856
Payroll processing fees	19,518	3,355	4,345	27,218
Photography	700	-	-	700
Postage and delivery	43	-	81	124
Development	21,202	76	-	21,278
Program expenses	15,759	86	-	15,845
Rent expense	248,945	43,932	-	292,877
Honorarium	3,013	-	-	3,013
Travel	3,661	12,424	-	16,085
Insurance	-	4,367	-	4,367
Research	<u>4,107</u>	<u>726</u>	<u>-</u>	<u>4,833</u>
Total Expenses	<u>\$ 993,883</u>	<u>\$ 372,707</u>	<u>\$ 123,895</u>	<u>\$ 1,490,485</u>

See notes to financial statements

# **Communitas America, Inc.**

## Statement of Functional Expenses Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 377,574	\$ 20,000	\$ 71,410	\$ 468,984
Payroll taxes and employee benefits	<u>95,662</u>	<u>5,037</u>	<u>17,985</u>	<u>118,684</u>
Total Salaries and Related Costs	473,236	25,037	89,395	587,668
Advertising and marketing	2,538	1,322	-	3,860
Bank fees	17	14	-	31
Conferences	518	5	-	523
Filing fees	-	1,420	-	1,420
Grant expense	30,200	-	-	30,200
Internet expenses	7,688	2,083	331	10,102
Professional and legal fees	20,000	223,156	7,750	250,906
Meals and entertainment	9,543	3,576	-	13,119
Office supplies and software	4,222	2,311	-	6,533
Payroll processing fees	15,964	841	3,001	19,806
Photography	350	-	-	350
Postage and delivery	403	18	-	421
Development	300	-	-	300
Program expenses	3,150	-	-	3,150
Rent expense	11,627	616	2,199	14,442
Honorarium	1,800	-	-	1,800
Subsidies	24,600	-	-	24,600
Travel	2,805	13,876	-	16,681
Insurance	-	1,028	-	1,028
Research	<u>20,275</u>	<u>233</u>	<u>-</u>	<u>20,508</u>
Total Expenses	<u>\$ 629,236</u>	<u>\$ 275,536</u>	<u>\$ 102,676</u>	<u>\$ 1,007,448</u>

See notes to financial statements

**Communitas America, Inc.**

Statement of Cash Flows

	Year Ended December 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 343,570	\$ 163,828
Adjustments to reconcile change in net assets to net cash from operating activities		
Deferred rent	-	(2,126)
Reduction in the carrying amount of right-of-use asset	151,824	-
Change in operating assets and liabilities		
Security deposits	-	(6,850)
Grant receivable	(25,000)	-
Accounts payable and accrued expenses	(8,821)	15,041
Accrued vacation	(3,770)	(2,251)
Lease payable	(403,227)	-
Net Cash from Operating Activities	<u>54,576</u>	<u>167,642</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(32,275)	-
Additions to construction in progress	<u>(497,029)</u>	<u>-</u>
Net Cash from Investing Activities	<u>(529,304)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan payable	<u>125,000</u>	<u>-</u>
<b>NET CHANGE IN CASH</b>	<b>(349,728)</b>	<b>167,642</b>
<b>CASH</b>		
Beginning of year	<u>1,343,747</u>	<u>1,176,105</u>
End of year	<u>\$ 994,019</u>	<u>\$ 1,343,747</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
On June 8, 2022 the Orngaization recognized a right of use asset and a lease payable of	\$ 3,223,739	\$ -

See notes to financial statements



## **Communitas America, Inc.**

Notes to Financial Statements  
December 31, 2022 and 2021

### **1. Nature of Organization and Tax Status**

Communitas America, Inc.'s (the "Organization") mission is to develop impact ecosystems in under-resourced communities and aim to develop sustainable resources by addressing persistent and systemic lack of access to economic and social opportunities in the United States of America. The Organization was incorporated in Delaware in March 2018.

The Organization is investing in and empowering local change makers, social entrepreneurs and grass-root leaders to enact positive changes through social innovation, leadership development and creation of an impact ecosystem within their own communities. The Organization is providing impact programming such as co-living residences, co-working spaces, a social impact accelerator and other entrepreneurial learning opportunities for local change makers.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Use of Estimates***

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") which 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 financial statements and the reported amounts of revenue and expenses reported during that period. Actual results could differ from those estimates.

#### ***Recently Adopted Accounting Standards***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)", which created new accounting and reporting guidelines for leasing arrangements. The new guidance requires organizations that lease assets to recognize assets and liabilities on the statements of financial position related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

## **Communitas America, Inc.**

Notes to Financial Statements  
December 31, 2022 and 2021

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Recently Adopted Accounting Standards (continued)***

The Organization adopted the requirements of the new standard, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The Organization adopted the following practical expedients and elected the following accounting policies related to this standard:

- Carry forward of historical lease classifications and accounting treatment;
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for certain equipment lease categories such as office printers and copiers.

The Organization's lease agreements do not contain any material residual value guarantees or any material restrictive covenants.

As a result of the adoption of the new lease accounting guidance, the Organization recognized a right-of-use asset and corresponding lease liability of \$3,223,739, that represents the present value of the remaining operating lease payments of \$3,939,229, discounted using the average rate of a loan for 10 years of 6%. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 7.

#### ***Net Assets***

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

##### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes.

##### **Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. There are no net assets with donor restrictions as of December 31, 2022 and 2021.

**Communitas America, Inc.**

Notes to Financial Statements  
December 31, 2022 and 2021

**2. Summary of Significant Accounting Policies (*continued*)**

***Grant Receivable***

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. The Organization provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectability of specific accounts. There was no allowance for doubtful accounts as of December 31, 2022 and 2021.

***Contributions and Grants***

Unconditional contributions are reported on the date the contributions is received. Conditional promises to give, that is, those with measurable performance or other barrier and a right of return of transferred assets, are not recognized until the conditions on which they depend on have been met. All contributions and grants are considered to be without donor restrictions unless specifically restricted by the donor. Gifts are reported as with donor restrictions support if they are received with donor stipulations that limit the use of donated assets.

***Equipment***

Items in excess of \$1,000 are capitalized as part of equipment, which are stated at cost or fair value if contributed. Depreciation is provided over the estimated useful life of 5-10 years and is computed utilizing the straight-line method.

***In-Kind Contributions***

In-kind contributions are recorded as income and expenses at the time the items are received, which is also the time they are placed into service. Donated services are reported as income and expense at their fair value if such services create value or would have been purchased if not provided by donation, require special skills, and are provided by individuals possessing such specialized skills.

In-kind contributions are as follows for the years ended December 31:

2022				
	<u>Value</u>	<u>Usage</u>	<u>Donor Restriction</u>	<u>Fair Value Techniques</u>
Legal services	\$ 156,052	Management and general	None	Estimates based on rates provided by law firms
2021				
	<u>Value</u>	<u>Usage</u>	<u>Donor Restriction</u>	<u>Fair Value Techniques</u>
Legal services	\$ 167,639	Management and general	None	Estimates based on rates provided by law firms

## Communitas America, Inc.

Notes to Financial Statements  
December 31, 2022 and 2021

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Functional Allocation of Expenses***

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programmatic and supporting services benefited. Such allocations are determined by management and are allocated as follows:

<u>Expense Classification</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes and employee benefits	Time and effort
Advertising and marketing	Usage
Conferences	Usage
Internet expenses	Usage
Professional and legal fees	Usage
Meals and entertainment	Usage
Office supplies and software	Usage
Payroll processing fees	Time and effort
Postage and delivery	Usage
Rent expense	Time and effort
Travel	Usage

#### ***Leases***

The Organization determines if an arrangement is a lease at inception. All leases are recorded on the statements of financial position except for leases with an initial term less than 12 months for which the Organization made the short-term lease election.

Operating lease right-of-use assets ("ROU") and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The ROU assets resulting from operating leases are included in right of use asset and the related liabilities are included in lease payable in the statements of financial position. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the Organization's incremental borrowing rate. Operating lease cost is recognized on a straight-line basis over the lease term as rent expense within management and general expenses in the statements of activities. Lease and non-lease components of lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

#### ***Grant Expense***

Grants are recorded in the year which they are awarded. There are no conditions or barriers for the recipients of these grants to overcome.

**Communitas America, Inc.**

Notes to Financial Statements  
December 31, 2022 and 2021

**2. Summary of Significant Accounting Policies (*continued*)**

***Advertising***

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2022 and 2021 was \$593 and \$3,860.

***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. Income tax returns since 2019 remain subject to examination by the federal, state and local income tax authorities.

***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is April 11, 2023.

**3. Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to a concentration of credit risk consist of cash and grant receivable. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation's insurance limits. As of December 31, 2022 and 2021, the uninsured portion of this balance was \$744,019 and \$1,093,747. At December 31, 2022, 100% of the Organization's grant receivable is from one funder. Grant receivable is expected to be collected in the normal course of business operations. For the years ended December 31, 2022 and 2021, approximately 89% and 99.8% of the Organization's contribution and grant revenue is from one donor.

**4. Liquidity and Availability of Financial Resources**

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 994,019	\$ 1,343,747
Grant receivable	<u>25,000</u>	<u>-</u>
Total Financial Assets Available Within One Year	<u>\$ 1,019,019</u>	<u>\$ 1,343,747</u>

**Communitas America, Inc.**

Notes to Financial Statements  
December 31, 2022 and 2021

**4. Liquidity and Availability of Financial Resources (*continued*)**

*Liquidity Management*

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. As part of liquidity management, the Organization monitors its expenditures and cash balance on a regular basis.

**5. Equipment and Construction in Progress**

Equipment consists of furniture, electronics and fixtures totaling \$32,275. No depreciation was recorded for the year ended December 31, 2022 as the equipment was purchased for Heyground Harlem, which was completed in January 2023.

In 2022, the Organization incurred costs totaling \$497,029, in connection with the Heyground Harlem project. The Heyground Harlem was completed in January 2023 and officially opened to members in March 2023.

**6. Loan Payable**

On September 28, 2022, the Organization obtained a \$125,000 unsecured, interest free loan. The loan requires four equal quarterly payments of \$31,250 due on the first day of January, April, July and October 2025.

**7. Lease Commitments**

The Organization's lease agreements consist of two leases, one for office space and one for Heyground Harlem.

Statement of financial position information related to the operating lease is as follows at December 31, 2022:

Operating lease right-of-use asset	\$ 3,071,915
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The components of the lease cost were as follows for the year ended December 31, 2022:

Lease expense	
Operating lease cost	\$ 248,597
Short-term lease cost	44,280
	<u>\$ 292,877</u>

## Communitas America, Inc.

### Notes to Financial Statements December 31, 2022 and 2021

#### 7. Lease Commitments (*continued*)

Information associated with the measurement of the Organization's operating lease obligations as of December 31, 2022 are as follows:

Remaining lease term in years for for operating lease 9.5

The following table presents information about the amount and timing of cash flows arising from the Organization's operating lease as of December 31, 2022:

Year Ending December 31,	Amount
2023	\$ -
2024	257,535
2025	412,755
2026	425,138
2027	442,543
Thereafter	<u>2,401,258</u>
Total undiscounted operating lease payments	3,939,229
Less: imputed interest	<u>1,118,717</u>
Present value of operating lease liabilities	<u>\$ 2,820,512</u>

A right of use asset of \$3,071,915 is presented net of accumulated amortization of \$151,824.

On June 8, 2022, the Organization entered into a lease agreement with an unrelated party for a space for Heyground Harlem. The lease is for a period of ten years commencing on June 8, 2022. The Organization paid \$500,000 at lease inception and therefore is not required to make any additional rent payments until 2024.

The Organization entered into a lease agreement effective August 1, 2020 for 12 months through July 31, 2021, with a discount of \$1,635 for the first three months, \$545 for the following three months and \$458 for the remaining six months of the lease. The Organization then entered into a lease agreement effective August 1, 2021, through July 31, 2022 with a discount of \$230 over the life of the lease. As of December 31, 2021, the lease was terminated and the Organization entered into a new lease agreement effective January 1, 2022 through December 31, 2022, with a discount of \$4,920 for the first two months and \$492 for the remaining ten months of the lease. The Organization then entered into a lease agreement with a one month commitment in January and February 2023.

## **Communitas America, Inc.**

### **Notes to Financial Statements December 31, 2022 and 2021**

#### **8. Defined Contribution Plan**

As part of the Organization's Professional Employer Organization, the Organization sponsors a Safe Harbor 401K Plan (the "Plan") which permits employee contributions. Employer contributions to the Plan are based on the employees' years of service and compensation. The Plan provides for voluntary salary deferrals for eligible employees. The amount contributed cannot be in excess of the maximum amounts allowed under the Internal Revenue Code. The Organization contributes 100% of the first 3% of eligible compensation plus 50% of salary deferrals that exceed 3% but do not exceed 5% of eligible compensation, with the participant directing the investment of said contribution.

The participant's account is held in trust until the participant retires or otherwise leaves employment after satisfying the vesting rules of the Plan, at which time it is distributed in full in the form of installment payments, a lump sum or a directly rolled over. Contribution expense for the Plan for the years ended December 31, 2022 and 2021 was \$16,809 and \$15,536.

#### **9. Related Party Transactions (Not Disclosed Elsewhere)**

A member of the Board of Directors who served during 2022 and 2021 is related to the Organization's primary donor through a familial relationship. The Organization received \$1,500,000 and \$1,000,000 in contributions from this donor during the years ended December 31, 2022 and 2021. This member is also the founder of the Organization.

#### **10. Risks and Uncertainties**

Global and domestic economic uncertainty has resulted in substantial volatility in the global financial markets. The extent to which the Organization's results are impacted will depend on future developments, which are highly uncertain and cannot be predicted. The amount of losses that may be recognized in subsequent periods cannot be reasonably estimated.

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