



**PARTNERS FOR THE COMMON GOOD**

**DECEMBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Partners for the Common Good  
Washington, DC

We have audited the accompanying financial statements of the Partners for the Common Good, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 financial statements referred to above present fairly, in all material respects, the financial position of the Partners for the Common Good as of December 31, 2012 and 2011, 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.

## ***Other Matters***

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013 on our consideration of the Partners for the Common Good's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partners for the Common Good's internal control over financial reporting and compliance.

*Syrouse, Lemkau + Co., LLP*

April 30, 2013

**PARTNERS FOR THE COMMON GOOD**  
**STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31,

	2012			2011		
	General Fund	Loan Fund	Total	General Fund	Loan Fund	Total
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 304,057	\$ 8,665,846	\$ 8,969,903	\$ 323,442	\$ 8,566,541	\$ 8,889,983
Cash - restricted	11,737	6,493	18,230	11,725	6,487	18,212
Loans receivable, current portion	-	2,816,684	2,816,684	-	3,850,607	3,850,607
Grant receivable, current portion	-	372,306	372,306	-	-	-
Prepaid expenses and other current assets	41,412	10,314	51,726	55,238	10,314	65,552
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 357,206</b>	<b>\$ 11,871,643</b>	<b>\$ 12,228,849</b>	<b>\$ 390,405</b>	<b>\$ 12,433,949</b>	<b>\$ 12,824,354</b>
<b>FIXED ASSETS, NET</b>						
	\$ 85,684	-	\$ 85,684	\$ 45,742	-	\$ 45,742
<b>NON-CURRENT ASSETS:</b>						
Community development certificates of deposit	\$ -	\$ 750,000	\$ 750,000	\$ -	\$ 1,750,000	\$ 1,750,000
Real estate owned	-	366,897	366,897	-	418,123	418,123
Non-performing loans	-	-	-	-	537,962	537,962
Loans receivable, net of current portion	-	13,547,769	13,547,769	-	9,699,611	9,699,611
Less, loan loss reserve	-	(996,645)	(996,645)	-	(821,205)	(821,205)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ -</b>	<b>\$ 13,668,021</b>	<b>\$ 13,668,021</b>	<b>\$ -</b>	<b>\$ 11,584,491</b>	<b>\$ 11,584,491</b>
<b>TOTAL ASSETS</b>	<b>\$ 442,890</b>	<b>\$ 25,539,664</b>	<b>\$ 25,982,554</b>	<b>\$ 436,147</b>	<b>\$ 24,018,440</b>	<b>\$ 24,454,587</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES:</b>						
Accrued expenses	\$ 211,176	\$ -	\$ 211,176	\$ 171,763	\$ -	\$ 171,763
Accrued interest payable	-	171,259	171,259	-	137,047	137,047
Community development notes payable, current portion	-	3,185,500	3,185,500	-	3,948,000	3,948,000
Term notes payable, current portion	-	1,100,000	1,100,000	-	1,563,058	1,563,058
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 211,176</b>	<b>\$ 4,456,759</b>	<b>\$ 4,667,935</b>	<b>\$ 171,763</b>	<b>\$ 5,648,105</b>	<b>\$ 5,819,868</b>
<b>LONG-TERM DEBT:</b>						
Community development notes payable, net of current portion	\$ -	\$ 4,704,908	\$ 4,704,908	\$ -	\$ 4,237,407	\$ 4,237,407
Term notes payable, net of current portion	-	9,099,000	9,099,000	-	8,019,000	8,019,000
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ -</b>	<b>\$ 13,803,908</b>	<b>\$ 13,803,908</b>	<b>\$ -</b>	<b>\$ 12,256,407</b>	<b>\$ 12,256,407</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 211,176</b>	<b>\$ 18,260,667</b>	<b>\$ 18,471,843</b>	<b>\$ 171,763</b>	<b>\$ 17,904,512</b>	<b>\$ 18,076,275</b>
<b>NET ASSETS:</b>						
Unrestricted	\$ 231,714	\$ 5,283,761	\$ 5,515,475	\$ 264,384	\$ 4,303,842	\$ 4,568,226
Temporarily restricted	-	1,995,236	1,995,236	-	1,810,086	1,810,086
<b>TOTAL NET ASSETS</b>	<b>\$ 231,714</b>	<b>\$ 7,278,997</b>	<b>\$ 7,510,711</b>	<b>\$ 264,384</b>	<b>\$ 6,113,928</b>	<b>\$ 6,378,312</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 442,890</b>	<b>\$ 25,539,664</b>	<b>\$ 25,982,554</b>	<b>\$ 436,147</b>	<b>\$ 24,018,440</b>	<b>\$ 24,454,587</b>

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

**PARTNERS FOR THE COMMON GOOD**  
**STATEMENTS OF ACTIVITIES**

FOR THE YEARS ENDED DECEMBER 31,

	2012		2011	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>REVENUE AND SUPPORT:</b>				
Grants	\$ 345,198	\$ 1,245,236	\$ 499,600	\$ -
Interest income:				
Loan portfolio	964,489	-	760,025	-
Community development certificates of deposit	6,300	-	12,420	-
Investment	26,231	-	92,638	-
Fees	49,424	-	38,645	-
Contributions	33,342	-	36,398	-
Other revenue	-	-	11,118	-
Net assets released from restrictions	1,060,086	(1,060,086)	1,092,907	(1,092,907)
<b>TOTAL REVENUE AND SUPPORT</b>	<b>\$ 2,485,070</b>	<b>\$ 185,150</b>	<b>\$ 2,543,751</b>	<b>\$ (1,092,907)</b>
<b>EXPENSES:</b>				
Program services	\$ 1,041,830	\$ -	\$ 836,312	\$ -
Supporting services:				
Management and general	396,310	-	342,477	-
Resource development	99,681	-	81,706	-
<b>TOTAL EXPENSES</b>	<b>\$ 1,537,821</b>	<b>\$ -</b>	<b>\$ 1,260,495</b>	<b>\$ -</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 947,249</b>	<b>\$ 185,150</b>	<b>\$ 1,283,256</b>	<b>\$ (1,092,907)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>4,568,226</b>	<b>1,810,086</b>	<b>3,284,970</b>	<b>2,902,993</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 5,515,475</b>	<b>\$ 1,995,236</b>	<b>\$ 4,568,226</b>	<b>\$ 1,810,086</b>

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

**PARTNERS FOR THE COMMON GOOD**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

FOR THE YEARS ENDED DECEMBER 31,

	2012			2011				
	Program Services	Management and General	Resource Development	Total	Program Services	Management and General	Resource Development	Total
Salaries	\$ 210,923	\$ 240,201	\$ 51,655	\$ 502,779	\$ 210,923	\$ 167,878	\$ 51,655	\$ 430,456
Fringe benefits	62,899	50,062	15,404	128,365	57,989	46,154	14,201	118,344
Rent	30,994	24,669	7,590	63,253	27,130	21,593	6,644	55,367
Office expenses	18,676	10,746	5,093	34,515	13,861	11,032	3,395	28,288
Dues and subscriptions	25,405	-	1,570	26,975	-	6,770	-	6,770
Professional fees	36,763	31,311	8,000	76,074	-	54,930	-	54,930
Legal fees	-	10,167	-	10,167	-	21,745	1,271	23,016
Meetings and travel	34,388	9,284	9,970	53,642	18,878	4,377	4,104	27,359
Computer repair and maintenance	1,630	1,298	399	3,327	1,781	1,418	436	3,635
Marketing and website	4,517	-	-	4,517	1,810	-	-	1,810
Interest	368,389	-	-	368,389	359,388	-	-	359,388
Loan loss expense	176,492	-	-	176,492	131,406	-	-	131,406
Decline in value of real-estate owned	51,226	-	-	51,226	-	-	-	-
Loan distribution fees	9,445	-	-	9,445	7,944	-	-	7,944
Credit reporting service	5,358	-	-	5,358	5,202	-	-	5,202
Staff development	4,725	1,089	-	5,814	-	-	-	-
Depreciation	-	17,483	-	17,483	-	6,580	-	6,580
<b>TOTALS</b>	<b>\$ 1,041,830</b>	<b>\$ 396,310</b>	<b>\$ 99,681</b>	<b>\$ 1,537,821</b>	<b>\$ 836,312</b>	<b>\$ 342,477</b>	<b>\$ 81,706</b>	<b>\$ 1,260,495</b>

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

## PARTNERS FOR THE COMMON GOOD

## STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,132,399	\$ 190,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,483	6,580
Decline in value of real-estate owned	51,226	-
Allowance for loan loss	175,440	131,406
Changes in assets and liabilities:		
Contributions receivable	-	50,000
Prepaid expenses and other current assets	13,826	62,962
Grants receivable	(372,306)	-
Accrued expenses	39,413	148,308
Accrued interest payable	34,212	(55,975)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,091,693</u>	<u>\$ 533,630</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from community development certificates of deposit	\$ 1,750,000	\$ 4,130,000
Purchases of community development certificates of deposit	(750,000)	(2,750,000)
Purchases of property and equipment	(57,425)	(32,712)
Loans receivable:		
New loans provided	(3,707,998)	(3,970,257)
Loan payments received	1,431,725	2,193,216
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>\$ (1,333,698)</u>	<u>\$ (429,753)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from community development and term notes payable	\$ 3,070,000	\$ 1,966,500
Curtailments of community development and term notes payable	(2,748,057)	(1,841,930)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>\$ 321,943</u>	<u>\$ 124,570</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	\$ 79,938	\$ 228,447
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,908,195</u>	<u>8,679,748</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR:</b>	<u>\$ 8,988,133</u>	<u>\$ 8,908,195</u>
<b>COMPRISED OF:</b>		
Cash and cash equivalents	\$ 8,969,903	\$ 8,889,983
Cash - restricted	18,230	18,212
<b>TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 8,988,133</u>	<u>\$ 8,908,195</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	<u>\$ 368,389</u>	<u>\$ 359,388</u>
<b>SUPPLEMENTAL NON-CASH INVESTING ACTIVITY:</b>		
Loans receivable, net reserve converted to Non-performing loans	<u>\$ -</u>	<u>\$ 229,246</u>

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



## PARTNERS FOR THE COMMON GOOD

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

#### Note 1. **Organization and Significant Accounting Policies**

**Organization** - Partners for the Common Good (PCG) was founded May 15, 2000 as an Illinois not-for-profit corporation. PCG is a community investment fund that applies the ethical principles of “the common good” to investment choices. PCG’s mission is to promote economic justice and social change by providing access to capital and building healthy sustainable nonprofit corporations that advance economic opportunities for low-income people. PCG’s business objectives are to:

- broaden interest and involvement in the community investment movement;
- provide opportunities for faith-based investors to share a portion of their financial resources with the economically poor by investing in intermediary agencies;
- model alternative approaches to the production of goods and services; and
- increase the overall capital base available for these kinds of projects.

Through financial intermediation to borrowers, PCG provides an effective and fiscally prudent mechanism through which institutional investors can support community development nationwide and abroad.

PCG has one subsidiary, PCG Community Investment Fund, LLC, which was established as a limited liability company on June 4, 2002 for the purpose of becoming a Community Development Entity. A Community Development Entity is a domestic corporation or partnership with the primary mission of serving or providing investment capital to low income communities or low income persons. As of December 31, 2012 and 2011 this subsidiary was inactive and had no assets.

**Basis of Presentation** - PCG presents its financial statements in accordance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in Codification topics *Accounting for Contributions Received and Contributions Made*, and *Financial Statements of Not-for-Profit Organizations*. Accordingly, the net assets of PCG are reported in each of the following three classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. At December 31, 2012 and 2011 there were no permanently restricted net assets.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

Under these provisions, non-contingent contributions and the associated gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of PCG and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions. The governing Board of the organization may elect to designate such resources for specific purposes. This designation may be removed at the Board’s discretion.

PARTNERS FOR THE COMMON GOOD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Significant Accounting Policies** (Continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of PCG and/or passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

**Contributions** - In accordance with Financial Accounting Standards Board Codification topic *Accounting for Contributions Received and Contributions Made*, contributions are recognized as revenue when they are received or unconditionally pledged. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair market value.

**Cash and Cash Equivalents** - PCG considers cash on deposit at various banks and highly liquid investments with maturities of three months or less at the date of purchase to be cash and cash equivalents.

**Certificates of Deposit** - Certificates of deposit are recorded at fair value which approximates cost and accumulated interest.

**Fair Value Measurements** - PCG complies with the Statement of Financial Accounting Standards Codification topic *Fair Value Measurements*. This defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy under this topic are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
Level 2	Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

PARTNERS FOR THE COMMON GOOD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 1. **Organization and Significant Accounting Policies** (Continued)

**Fixed Assets** - Property and equipment is stated at cost, or if donated, at fair market value at date of receipt. PCG capitalizes purchases of equipment over \$1,000 and with an estimated useful life of more than one year. Depreciation is calculated by the straight-line method over the estimated useful life of 3 to 7 years. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is credited or charged to income.

**Tax Status** - PCG is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on income related to its exempt purpose. In addition, PCG has been determined by the Internal Revenue Service to be a "qualifying charity" within the meaning of Section 509(a) of the Internal Revenue Code.

**Accounting For Income Taxes** - PCG complies with the provisions of Financial Accounting Standards Board Codification Topic *Accounting for Uncertainty in Income Taxes*. For the years ended December 31, 2012 and 2011, no unrecognized tax provision or benefit exists.

**Subsequent Events** - The Organization evaluated subsequent events for potential required disclosure through April 30, 2013, which is the date financial statements were available to be issued.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Functional Allocation of Expenses** - The cost of PCG's programs and administration has been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs benefited.

**Reclassifications** - Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no impact on previously reported net assets.

Note 2. **Concentration of Credit Risk** - Financial instruments that potentially subject PCG to credit risk include cash deposits with banks in excess of the insurance limitations of the Federal Deposit Insurance Corporation. Cash balances in excess of near term operating requirements are automatically invested in federal funds. Management does not consider this a significant concentration of credit risk.

**PARTNERS FOR THE COMMON GOOD**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

Note 3. **Loans Receivable** - Loans receivable at December 31, 2012 consisted of the following:

Maturity	Principal	Interest Rate
2013	\$ 2,816,684	4.88% to 6.50%
2014	2,850,509	5.50% to 7.00%
2015	3,404,828	3.39% to 7.50%
2016	2,366,542	4.00% to 7.13%
2017	2,939,148	5.00% to 7.75%
Thereafter	1,986,742	7.00% to 8.00%
Total	\$ 16,364,453	

As of December 31, 2012 and 2011, the loan loss reserve for these loans receivable was \$996,645 and \$821,205, respectively.

As of December 31, 2012, PCG had \$2,819,000 in loans commitments outstanding but not yet disbursed and an additional \$571,600 in loan transactions that were closed, but not yet disbursed at the preference of the borrowers. As of March 31, 2013, PCG had issued an additional \$2,075,000 in new binding loan commitments.

Note 4. **Non-performing loans** - During 2011, PCG took ownership of one the properties associated with the non-performing loans. This transaction resulted in the property being reclassified from non-performing loans to real estate owned at the estimated net realizable value of \$418,123. The estimated value of this property at December 31, 2012 is \$366,897.

Additionally during 2011, PCG purchased the participation interest of one of the non-performing loans from its participation partner. During 2011, PCG also incurred legal fees of \$59,216 associated with two non-performing loans, and in accordance with the loan agreements, these legal fees have been added to the estimated net realizable value of the non-performing loans. At December 31, 2011, the estimated net realizable value of the two non-performing loans is \$537,962. During 2012, a settlement was reached in the two non-performing loans and full payment, plus accrued interest and legal fees was received in January 2013.

Note 5. **Fixed Assets** - Fixed assets at December 31, 2012 and 2011 were recorded at cost, as shown below:

	2012	2011
Computers and software	\$ 149,850	\$ 95,213
Furniture	6,436	3,648
Subtotal	\$ 156,286	\$ 98,861
Less, Accumulated depreciation	(70,602)	(53,119)
Fixed assets, net	\$ 85,684	\$ 45,742

Depreciation expense for the years ended December 31, 2012 and 2011 was \$17,483 and \$6,580, respectively.

PARTNERS FOR THE COMMON GOOD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6. **Credit Quality**

**Loan Origination/Risk Management** - PCG has certain lending policies and procedures in place that are designed to ensure that the loan portfolio maintains an acceptable level of risk. Management reviews and updates these policies and procedures on a regular basis. The Loan Advisory Committee and the Board of Directors approve any changes to policies. A reporting system supplements the review process by providing management with frequent reports related to loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

PCG finances both direct loans and loans in participation with other CDFIs. For direct loans, PCG conducts an analysis of the potential borrowers' financial status and projections, loan structure, collateral and project mission. For participation loans, PCG conducts an analysis of both the borrower and the lending partner reviewing the capital structure, asset quality, management earnings and impact of the lending partner.

The following table represents an aging of loans by category as of December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Still Accruing	Total Past Due	Current	Total Loans
International	\$ --	\$ --	\$ --	\$ --	\$ 1,394,999	\$ 1,394,999
Housing	--	--	--	--	5,882,748	5,882,748
Community facility	151,509	410,502	--	562,011	5,761,857	6,323,868
Commercial real estate	--	--	--	--	1,780,714	1,780,714
Working capital	--	--	--	--	982,124	982,124
Totals	<u>\$ 151,509</u>	<u>\$ 410,502</u>	<u>\$ --</u>	<u>\$ 562,011</u>	<u>\$15,802,442</u>	<u>\$16,364,453</u>

**Credit Quality Indicators** - PCG assigns internal credit classifications at the inception of each loan. These ratings are reviewed by PCG management on a monthly basis. The following definitions summarize the basis for each classification:

- 1 - Moderate Risk      Fully amortizing or firm take-out source; satisfactory operations; substantial borrowing history with PCG; excellent collateral and cash flow; credit exceeds 75% LTV requirements
- 2 - Average Risk      Collateral, cash flow, and credit support loan – 75% LTV

PARTNERS FOR THE COMMON GOOD

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6. **Credit Quality** (Continued)

- 3 - Substantial Risk Collateral coverage is limited – LTV is greater than 90%; DCR is less than 1.1 (a construction loan would generally receive this rating until construction is complete, a certificate of occupancy has been issued, and an appropriate period of operations has been demonstrated)
- 4 - High Risk Source of take-out is speculative; collateral is inadequate or nonexistent; payments are 30 days past due; possible workout; weak financial condition; uncooperative borrowers; documentation deficiencies (no financial reports available); potential for loss is assessed on a case-by-case basis
- 5 - Workout/Default Payments are 60 days past due; collateral or guarantee has a value less than outstanding loan amount; potential for loss is assessed on a case-by-case basis

The following table summarizes the loan portfolio by category of loan and the internally assigned credit quality ratings for those categories at December 31, 2012:

	International	Housing	Community Facility	Commercial Real Estate	Working Capital	Total
1 - Moderate	\$ --	\$ 422,943	\$ 581,194	\$ 905,935	\$ --	\$ 1,910,072
2 - Average	500,000	3,018,576	2,228,162	--	239,750	5,986,488
3 - Substantial	824,999	2,322,570	2,186,527	874,779	522,800	6,731,675
4 - High	70,000	118,660	1,327,984	--	219,574	1,736,218
5 - Workout/default	--	--	--	--	--	--
Totals	<u>\$ 1,394,999</u>	<u>\$ 5,882,749</u>	<u>\$ 6,323,867</u>	<u>\$ 1,780,714</u>	<u>\$ 982,124</u>	<u>\$16,364,453</u>

**Allowance for Loan Loss** - The following table summarizes the allowance for loan losses as of and for the year ended December 31, 2012, by loan category and the amount by category, as evaluated by PCG's risk rating system:

	Housing	Community Facility Commercial Real Estate	Working Capital	International	Total
Allowance for loan losses:					
Beginning balance	\$ 100,515	\$ 574,568	\$ 78,247	\$ 67,875	\$ 821,205
Charge-offs	--	--	--	--	--
Recoveries	--	--	--	--	--
Provisions for loan losses	122,953	8,539	48,173	(4,225)	175,440
Ending balance	<u>\$ 223,468</u>	<u>\$ 583,107</u>	<u>\$ 126,420</u>	<u>\$ 63,650</u>	<u>\$ 996,645</u>

**PARTNERS FOR THE COMMON GOOD**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

**Note 6. Credit Quality (Continued)**

The following is a summary of the activity in the allowance for loan losses at December 31, 2011:

Balance at beginning of year	\$ 700,190
Provision for loan losses	121,015
Charge-offs, net of recoveries	<u>    --</u>
Balance at end of year	<u>\$ 821,205</u>

The following is a summary of the current and non-current portions of the allowance for loan losses at December 31:

	<u>2012</u>	<u>2011</u>
Current	\$ 83,026	\$ 218,728
Non-current	913,619	602,477
Totals	<u>\$ 996,645</u>	<u>\$ 821,205</u>

The allowance for loan losses as a percentage of loans outstanding at December 31, 2012 and 2011 was 6.10% and 6.06%, respectively, of PCG's loan portfolio.

The allowance for loan losses is based on management's estimates using PCG's risk rating system, with decisions to upgrade or downgrade based on the following factors: (1) current payment status; (2) borrower performance; (3) transaction size and complexity; (4) covenant compliance; (5) collateral; and (6) expectation of repayment.

**Note 7. Notes Payable** - Long-term debt consisted of the following at December 31, 2012:

	<u>2012</u>	<u>2011</u>
Community Development Notes, maturing between October 1, 2010 through May 1, 2019 some subject to prior redemption, bearing stated interest at 0% to 3.00%, payable annually	\$ 7,890,408	\$ 8,185,407
Term Loans, maturing between December 31, 2011 through October 23, 2022, some subject to prior redemption, bearing stated interest at 1.00% to 4.00%, payable annually	10,199,000	9,582,058
Total Notes Payable	<u>\$ 18,089,408</u>	<u>\$ 17,767,465</u>

**PARTNERS FOR THE COMMON GOOD**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

**Note 7. Notes Payable (Continued)**

Future maturities of long-term debt are as follows as of December 31, 2012:

<u>Years Ending December 31,</u>	<u>Development Notes</u>	<u>Term Loans</u>	<u>Totals</u>
2013	\$ 3,185,500	\$ 1,100,000	\$ 4,335,500
2014	1,560,000	3,090,000	4,650,000
2015	1,514,908	75,000	1,589,908
2016	835,000	1,200,000	2,035,000
2017	695,000	1,175,000	1,870,000
Thereafter	100,000	3,559,000	3,609,000
Totals	<u>\$ 7,890,408</u>	<u>\$ 10,199,000</u>	<u>\$ 18,089,408</u>

**Note 8. Commitments** - In December 2010, PCG signed a sub-lease agreement for office space commencing on January 1, 2011 and expiring on March 31, 2016. The base monthly rent under the lease is \$5,417 increasing at six percent per year on the lease anniversary date.

Future minimum lease payments under the operating lease as of December 31, 2012, are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 73,034
2014	77,416
2015	82,061
2016	21,746
Total	<u>\$ 254,257</u>

Rent expense for the years ended December 31, 2012 and 2011 was \$63,253 and \$55,367, respectively.

**Note 9. Temporarily Restricted Net Assets** - Temporarily restricted net assets (restricted for the purpose indicated) at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Restricted Grant from Community Development Financial Institutions Fund (financial assistance)	\$ 1,995,236	\$ 1,750,000
Restricted Grant from Community Development Financial Institutions Fund (technical assistance)	--	60,086
Totals	<u>\$ 1,995,236</u>	<u>\$ 1,810,086</u>



PARTNERS FOR THE COMMON GOOD  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Employer I.D. # 36-4369806

<u>Federal Granting Agency/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Treasury - Community Development Financial Institutions Program	21.020	<u>\$ 1,245,236</u>
<b>TOTAL</b>		<u><u>\$ 1,245,236</u></u>

PARTNERS FOR THE COMMON GOOD

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1. **Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Partners for the Common Good and is presented on the accrual basis of accounting. The information in this schedule is in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Partners for the Common Good  
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Partners for the Common Good (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Partners for the Common Good's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Partners for the Common Good's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Partners for the Common Good's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

*Syrase, Lencake + Co., LLP*

Rockville, Maryland  
April 30, 2013



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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors  
Partners for the Common Good  
Washington, D.C.

### Report on Compliance for Each Major Federal Program

We have audited Partners for the Common Good's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Partners for the Common Good's major federal programs for the year ended December 31, 2012. Partners for the Common Good's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Partners for the Common Good's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Partners for the Common Good's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Partners for the Common Good's compliance.

### Opinion on Each Major Federal Program

In our opinion, Partners for the Common Good complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

## Internal Control Over Compliance

Management of Partners for the Common Good is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Partners for the Common Good's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Partners for the Common Good's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Synovate, Lender + Co., LLP*

Rockville, Maryland  
April 30, 2013

**PARTNERS FOR THE COMMON GOOD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**A. Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified?        Yes   X   No  
 Significant deficiency(ies) identified that are  
 not considered to be material weakness(es)?        Yes   X   No

Noncompliance material to financial statements noted?        Yes   X   No

Federal Awards:

Internal control over major programs:  
 Material weakness(es) identified?        Yes   X   No  
 Significant deficiency(ies) identified that are  
 not considered to be material weakness(es)?        Yes   X   No

Type of auditors' report issued on compliance  
 for major programs: Unqualified

Any audit findings disclosed that are required  
 to be reported in accordance with Section 510(a)  
 of Circular A-133?        Yes   X   No

Identification of Major Programs:

<p><u>CFDA Number(s)</u> 21.020</p>	<p><u>Name of Federal Program or Cluster</u> U.S, Department of Treasury- Community Development Financial Institutions Program</p>
<p>Dollar threshold used to distinguish between Type A and Type B programs:</p>	<p><u>\$300,000</u></p>
<p>Auditee qualified as low-risk auditee?</p>	<p><u>      </u> Yes <u>  X  </u> No</p>

**PARTNERS FOR THE COMMON GOOD**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**B. Findings - Financial Statement Audit**

1. There were no findings relative to the financial statement audit.

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

1. None

**D. Prior Year Audit Findings**

1. No prior year A-133 compliance audit required and therefore no A-133 audit was conducted.