Consolidated Financial Statements and Report of Independent Certified Public Accountants

Make It Right Foundation

As of December 31, 2008 and 2007

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Report of Independent Certified Public Accountants

To the Board of Directors of
Make It Right Foundation:

We have audited the accompanying consolidated statements of financial position of **Make It Right Foundation**, a Delaware not-for-profit corporation, **and Subsidiaries** as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the year ended December 31, 2008, and the period from Inception (August 15, 2007), through December 31, 2007. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Make It Right Foundation and Subsidiaries as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended December 31, 2008, and the period from Inception (August 15, 2007), through December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Raleigh, North Carolina
May 28, 2009

Consolidated statements of financial position

December 31	2008	2007
	$	$
Assets		
Cash and cash equivalents	8,722,588	3,220,614
Pledged contributions and grants receivable, net	7,735,000	9,742,741
Accounts receivable	60,202	58,501
Homeowner receivables	451,169	-
Mortgage receivables	1,529,800	-
Inventories, net	288,995	-
Prepaid expenses	46,512	31,130
Construction work in process	467,168	-
Other assets	42,426	-
Property, furniture and equipment, net	437,662	3,249
	19,781,522	13,056,235
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	895,192	620,556
Deferred rent	31,800	-
Deferred revenue	1,374,889	-
Total liabilities	2,301,881	620,556
Net assets:		
Unrestricted	17,329,641	12,435,679
Temporarily restricted	150,000	-
Permanently restricted	-	-
Total net assets	17,479,641	12,435,679
	19,781,522	13,056,235

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

Consolidated statements of activities

For the year ended December 31, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	$	$	$	$
Revenues, gains and other support:				
Contributions and gifts	12,260,814	150,000	-	12,410,814
Sales to homeowners	877,095	-	-	877,095
Investment income	104,171	-	-	104,171
Merchandise income	93,869	-	-	93,869
Total revenues, gains and other support	13,335,949	150,000	-	13,485,949
Expenses:				
Fundraising expense	649,307	-	-	649,307
Management and general	170,980	-	-	170,980
Program expense	7,621,700	-	-	7,621,700
Total expenses	8,441,987	-	-	8,441,987
Change in net assets	4,893,962	150,000	-	5,043,962
Net assets, beginning of period	12,435,679	-	-	12,435,679
Net assets, end of period	17,329,641	150,000	-	17,479,641

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

Consolidated statements of activities

For the period from inception (August 15, 2007), through December 31, 2007	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	$	$	$	$
Revenues, gains and other support:				
Contributions and gifts	15,452,221	-	-	15,452,221
Sales to homeow ner	-	-	-	-
Investment income	2,223	-	-	2,223
Merchandise income	222,429	-	-	222,429
Total revenues, gains and other support	15,676,873	-	-	15,676,873
Expenses:				
Fundraising expense	179,325	-	-	179,325
Management and general	80,078	-	-	80,078
Program expense	2,981,791	-	-	2,981,791
Total expenses	3,241,194	-	-	3,241,194
Change in net assets	12,435,679	-	-	12,435,679
Net assets, beginning of period	-	-	-	-
Net assets, end of period	12,435,679	-	-	12,435,679

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

Consolidated statements of cash flows

	For the Year Ended December 31, 2008	Period from Inception (August 15, 2007), through December 31, 2007
	$	$
Cash flows from operating activities:		
Change in net assets	5,043,962	12,435,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,544	498
Contributions of property, furniture and equipment	(347,049)	-
Increase (decrease) in cash due to changes in:		
Pledged contributions and grants receivable	2,007,741	(9,742,741)
Accounts receivable	(1,701)	(58,501)
Homeowner receivables	(451,169)	-
Mortgage receivables	(1,529,800)	-
Inventories, net	(288,995)	-
Prepaid expenses	(15,382)	(31,130)
Construction work in process	(467,168)	-
Other assets	(42,426)	-
Accounts payable and accrued expenses	274,636	620,556
Deferred revenue	1,374,889	-
Deferred rent	31,800	-
Net cash provided by operating activities	5,613,882	3,224,361
Cash flows from investing activities – Capital expenditures	(111,908)	(3,747)
Net increase in cash and cash equivalents	5,501,974	3,220,614
Cash and cash equivalents, beginning of period	3,220,614	-
Cash and cash equivalents, end of period	8,722,588	3,220,614
Noncash investing activities – Furniture acquired through donations	347,049	-

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

Notes to consolidated financial statements

1 Organization and Basis of Accounting and Presentation

Organization and Purpose

Make It Right Foundation (the Foundation) was incorporated on August 15, 2007, as a Delaware not-for-profit corporation. The Foundation was formed in response to the devastation of Hurricane Katrina. Its primary goal is to provide high-quality housing to families in need (a majority of whom earn modest incomes), and to improve the development of the low-income communities in which they live. The organization's first project is to assist in the redevelopment of the city of New Orleans, in particular, the section located in the Lower 9th Ward. The mission is to be a catalyst for redevelopment of the Lower 9th Ward by building a neighborhood comprised of safe and healthy homes that are inspired by Cradle to Cradle℠ thinking, with an emphasis on a high quality of design, while preserving the spirit of the community's culture.

The Foundation intends to achieve its purposes by (i) making available to the members of the community, at no cost to them, designs prepared by architects from around the world for homes to be built in the community utilizing sustainable architecture; (ii) assisting the members of the community in rebuilding their homes using these designs by subsidizing the cost of construction by means of outright grants (in the form of payment of all or a portion of construction costs) or granting interest-free loans, the principal of which will be forgiven over a specified time period if the homeowner continues to own and use the house as his or her residence; (iii) retaining community counseling that will be made available to residents at no cost to assist them in connection with their responsibilities as members of the community, including the financial responsibilities attributable to home ownership; and (iv) working closely with representatives of the appropriate local, state and federal government and government agencies in order to fit the Foundation's work, as nearly as possible, within the overall redevelopment plans for New Orleans. The Foundation will work with local residents to be responsive to their needs. The Foundation will use its best efforts to employ local workers during the construction process and will develop an integrated community that, as hoped, will serve as a catalyst to future growth and development. Any principal payments made to the Foundation on the loans to community residents will be used by the Foundation to further its charitable purposes. The Foundation will not assist in the sale or purchase of homes for a profit.

Activities in 2007 consisted, principally, of raising the awareness of the plight of former residents of New Orleans' Lower 9th Ward, fundraising and activities related to site development, architectural plans and other related construction activities.

In 2008, the Foundation set up two single member LLC subsidiaries: Make It Right - New Orleans, LLC and Make It Right - New Orleans Housing, LLC. The Foundation's two subsidiaries are included in the accompanying consolidated financial statements. These subsidiaries are engaged primarily to support programmatic activities.

The Foundation and its subsidiaries are collectively referred to hereinafter as the Foundation.

Basis of Accounting and Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under the provisions of SFAS No. 117, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to specific donor-imposed stipulations are reported as unrestricted net assets. Donations made for the Foundation's stated purposes are considered unrestricted.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that have been, or will be, satisfied either by actions of the Foundation and/or the passage of time are reported as temporarily restricted net assets.

Permanently Restricted Net Assets

Net assets subject to permanent donor-imposed stipulations that must be maintained by the Foundation are reported as permanently restricted net assets.

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. 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 the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same period as the contributions are received are recorded as unrestricted support.

2 Significant Accounting Policies

The following significant accounting policies have been used in the preparation of the consolidated financial statements:

Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

The Foundation maintains its cash balances at two financial institutions. As of December 31, 2008, cash balances exceeded the federally insured limit by $8,374,118 and, as of December 31, 2007, exceeded the insured limit by $3,120,614. The Foundation considers all highly liquid investments with a maturity of less than 90 days at time of purchase to be cash equivalents.

Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the respective assets of three to seven years. Maintenance, repairs and minor equipment purchases are expensed as incurred.

Inventories

The Foundation records all inventory at actual cost or, if donated, at the estimated fair value at date of donation. Inventory consists of building materials and inside fixtures for construction of the homes. Once inventory is transferred from the warehouse and is taken to the construction site, it is reclassified to construction work in process until the home is completed and sold.

Contributions and Gifts

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions also include grant revenue, which are funds received, periodically, from private and public sources as contributions.

Allowance for Uncollectible Pledges

An allowance for uncollectible pledges is established annually based on the estimated amount of uncollectible promises to give. As of December 31, 2008, the Foundation had an allowance of $150,000 for estimated uncollectible pledges.

Sales to Homeowners

Revenue is recognized at the time of sale, when construction of the home has been completed and is turned over to the homeowner. Any amounts recorded for loans receivable (whether in mortgage receivables or homeowner receivables in process) prior to closing of the sales are recorded as deferred revenue. The deferred revenue on the loans are recognized as revenue as earned and forgiven, as explained in footnote seven.

Functional Allocation of Expenses

The costs of providing the various programs and activities of the Foundation have been summarized on a functional basis in the accompanying consolidated statements of activities, and have been allocated among the programs and activities benefited.

Operating expenses are allocated to specific functions based on management estimates of time and resources devoted to those functions. The following functional expense classifications are included in these consolidated financial statements:

Fundraising Activities: Includes costs associated with the activities related to the publicizing and conducting fund-raising campaigns, events and conducting other activities involved with soliciting contributions from individuals, foundations, governments and others.

Program Expenses: Includes costs associated with programs and outreach for the Foundation. The activities included in this area are those that result in goods and services being distributed to beneficiaries or consumed in activities that fulfill the purposes or mission for which the Foundation exists.

Management and General: Includes costs associated with the overall direction of the Foundation. These expenses are not directly identifiable to a particular program or event or with fundraising, but are crucial to the continuance of those areas and are essential to the Foundation as a whole. The business functions included in this area are Foundation oversight, business management, financing, administrative activities and all management and administration, except for direct conduct of program services or fund-raising activities.

Tax-exempt Status

The Foundation received a determination letter from the Internal Revenue Service on November 5, 2007, that it qualified as an organization under Section 501(c)(3) and is exempt from payment of income taxes under the provisions of Internal Revenue Code Section 501(a), except for any unrelated business income. The Foundation had no unrelated business income for the period from Inception (August 15, 2007), through December 31, 2008. Accordingly, no provision for income taxes has been made.

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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts from the prior year were reclassified to conform to the current year presentation. These reclassifications had no effect on net income or members' equity, as previously reported.

Donated Services

The Foundation from time to time receives donated services from unpaid volunteers. Only donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received. Volunteer services not meeting these criteria are not recorded in the consolidated financial statements.

New Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), an interpretation of SFAS No. 109, "Accounting for Income Taxes," which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that entities recognize in the financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on recognition and classification of income tax related liabilities, interest and penalties, accounting in interim periods and disclosure. The cumulative effect of applying FIN 48, if any, will be reported as an adjustment to net assets at the beginning of the period in which it is adopted. In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), "Accounting for Uncertainty in Income Taxes," to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of Interpretation 48 for the year ending December 31, 2008.

3 Pledged Contributions Receivable

The Foundation has received contributions from various private and public sources to provide funding for its programs or to aid in its general operations.

For the year ended December 31, 2008, and during the period from Inception (August 15, 2007), through December 31, 2007, approximately 20% and 49%, respectively, of the Foundation's contributions and gifts recognized in the accompanying consolidated statements of activities were from two donors. These two donors also comprise approximately 89% and 58% of pledged contributions and grants receivable as of December 31, 2008 and 2007, respectively.

4 Donated Services

The Foundation received in-kind donations of $56,465 and $35,896 for legal services, and $59,368 and $12,893 for accounting services during the years ended December 31, 2008 and 2007, respectively, and $265,000 for website design services during the period from Inception (August 15, 2007), through December 31, 2007. The Foundation received $347,049 in donated furniture and $53,734 in donated building materials during the year ended December 31, 2008.

5 Property and Equipment

Property and equipment at December 31, 2008 and 2007, consisted of the following:

	2008	2007
	$	$
Furniture and fixtures	375,937	3,747
Computer software	15,480	-
Computer and telephone	71,287	-
Less – Accumulated depreciation	(25,042)	(498)
Property and equipment, net	437,662	3,249

Depreciation expense for the year ended December 31, 2008, and the period from Inception (August 15, 2007), through December 31, 2007, totaled $24,544 and $498, respectively.

6 Operating Lease

The Foundation leases certain computer equipment and office and warehouse space under operating leases. The office space lease commenced on June 1, 2008, and has a term of two years. Rental payments are fixed for the first six months at $9,333 per month and then escalate at a rate of 1.5% for the next six months and at a rate of 1.1% for the remaining year. The following is a schedule, by years, of the future minimum lease payments required under the operating leases as of December 31, 2008:

	Amount
	$
2009	205,169
2010	70,909
2011	1,440
Thereafter	-
Total lease payments	277,518

Rent expense under leases with escalating rental payments is recognized on the straight-line basis with deferred rent recorded for differences between amounts expensed and amounts paid. Rent expense related to the operating leases for the year ended December 31, 2008, and the period from Inception (August 15, 2007), through December 31, 2007, totaled $122,726 and $0, respectively.

7 Mortgage Receivables

The Foundation offers potential homeowners three major types of loans: 1) forgivable loans, 2) supplemental loans and 3) amortizing loans.

A forgivable loan is a loan funded with the Foundation's capital without any interest or principal payments which is forgiven over a five- or ten-year period. The Foundation's program participants may qualify for two types of forgivable loans: 1) bonus forgivable loan, equal to 20% of the original purchase price of the home, or 2) needs based forgivable loan, equal to the gap between 85% of the homeowner's Disaster Recovery Fund and the price of the home. The Disaster Recovery Fund represents any funding received by the individual from insurance proceeds, settlements, judgments or other housing-related disaster recovery compensation paid because of damages to their property as a result of Hurricane Katrina. A bonus forgivable loan can vary between five or ten years based on the amount of the loan and the needs based forgivable loan is forgiven in full after ten years of occupancy in the home.

A supplemental loan is available to participants who have received a commitment for Disaster Recovery Funds, which have not yet been disbursed. This loan is available in two scenarios: 1) bridge loan which is a deferred loan with no interest and a five-year term, that is available until the participant receives the Disaster Recovery Funds, or 2) deferred payment note which is receivable in one lump sum at the earlier of the receipt of the Disaster Recovery Funds or a 30-year term.

Amortizing loans are similar to conventional mortgage loans. These loans are fixed rate, interest bearing 30-year notes. All amortizing loans during 2008 had a fixed 6% interest rate.

The remaining sales price not funded with one of the aforementioned loans is recovered from the homeowner's funds. Sources for the homeowner's funds include Disaster Recovery Funds, personal savings and third-party mortgage loans. These funds are held in trust by a third-party escrow agent until the construction of the house is completed. The amount of funds escrowed during construction is booked as a homeowner receivable. The escrowed funds are released to the Foundation after construction is completed.

Mortgage receivables at December 31, 2008 and 2007, consisted of the following:

	Interest Bearing	Non-interest Bearing	Total
	$	$	$
Beginning balance at December 31, 2007	-	-	-
New loans	507,256	1,052,844	1,560,100
Mortgage payoffs	(300)	(30,000)	(30,300)
Ending balance at December 31, 2008	506,956	1,022,844	1,529,800

8 Subsequent Events

In March 2009, the Foundation invested $9 million through a leveraged lender subsidiary in American Community Renewable Energy Fund, LLC and Make It Right - New Orleans, LLC to receive $11.7 million in financing from the same fund through the Federal New Market Tax Credit Program (NMTC). The NMTC program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The Foundation is a qualified active low-income community business, as that term is defined in the Internal Revenue Code. The $11.7 million financing (NMTC Loan) is in the form of a non-amortizing loan with a seven-year term. After the seven-year term, the CDE will "put" its interest in the NMTC Loan to the Foundation at a price equal to 10% of the face value of the loan. The CDE agreed to contribute the put price to the Foundation if all NMTC compliance and reporting requirements are met by the Foundation during the seven-year term.