

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

Presented by:

BURKE & COMPANY LLC  
Certified Public Accountants  
Stoneham, Massachusetts 02180

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Castle Square Tenants Organization, Inc. and Subsidiaries  
Boston, Massachusetts

We have audited the accompanying consolidated financial statements of Castle Square Tenants Organization, Inc. and Subsidiaries (a nonprofit organization) which comprise the consolidated statement of financial position of as of December 31, 2012, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year 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 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

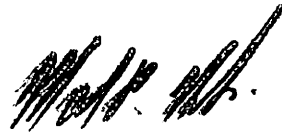
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Castle Square Tenants Organization, Inc. and Subsidiaries as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 11 through 13 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.



Burke & Company LLC  
Certified Public Accountants

Stoneham, Massachusetts  
September 10, 2013

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

ASSETS

ASSETS

Cash and Cash Equivalents	3,361,987
Investment Securities	651,043
Fixed Assets	27,461
Accounts Receivable	26
Notes Receivable	<u>4,460,000</u>
 <u>TOTAL ASSETS</u>	 <u>8,500,517</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accrued Expenses	26,550
Investment in Partnership	<u>20,661</u>
 <u>TOTAL LIABILITIES</u>	 <u>47,211</u>

NET ASSETS

Unrestricted	7,778,798
Temporarily Restricted	<u>674,508</u>
 <u>TOTAL NET ASSETS</u>	 <u>8,453,306</u>

<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>8,500,517</u>
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SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

UNRESTRICTED NET ASSETS

Support and Revenue	
Development Fee	2,972,996
Management Service Fee	441,011
Contribution	27,384
Disposition Fee Revenue	121,842
Grant	474,088
Membership Dues	405
Program User Fees	51,762
Investment Return	1,025
Gain (Loss) from Partnerships	( 19,467)
Parking Fees	57,300
Expense Reimbursement	<u>143,520</u>
<u>TOTAL SUPPORT AND REVENUE</u>	<u>4,271,866</u>

Expenses	
Program Services	574,088
Management and General	<u>74,091</u>
<u>TOTAL EXPENSES</u>	<u>648,179</u>

INCREASE IN UNRESTRICTED NET ASSETS 3,623,687

TEMPORARILY RESTRICTED NET ASSETS

Support and Revenue	
Investment Return	<u>36,677</u>

INCREASE IN TEMPORARILY RESTRICTED NET ASSETS 36,677

TOTAL INCREASE IN NET ASSETS 3,660,364

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>BALANCE: BEGINNING OF YEAR</u>	4,155,111	637,831	4,792,942
<u>INCREASE (DECREASE) FOR THE YEAR</u>	<u>3,623,687</u>	<u>36,677</u>	<u>3,660,364</u>
<u>BALANCE: END OF YEAR</u>	<u>7,778,798</u>	<u>674,508</u>	<u>8,453,306</u>

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	327,166	----	327,166
Payroll Taxes	37,273	----	37,273
Fringe Benefits	<u>27,446</u>	<u>----</u>	<u>27,446</u>
<u>TOTAL SALARIES AND RELATED EXPENSES</u>	<u>391,885</u>	<u>----</u>	<u>391,885</u>
Insurance	4,663	----	4,663
General Programs	61,789	----	61,789
Advertising	140	----	140
Professional Fees	89,022	55,136	144,158
Office Expense	9,401	9,400	18,801
Development Expenses	7,226	----	7,226
Filing Fees and Taxes	----	9,555	9,555
Equipment and Supplies	<u>9,962</u>	<u>----</u>	<u>9,962</u>
<u>TOTAL EXPENSE</u>	<u>182,203</u>	<u>74,091</u>	<u>256,294</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>574,088</u>	<u>74,091</u>	<u>648,179</u>

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS



CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in Net Assets	3,660,364
Adjustments to Reconcile Increase in Net Assets to Net Cash Used in Operating Activities:	
Partnership Loss	19,467
Unrealized Loss on Investments	( 10,445)
(Increase) Decrease in:	
Accounts Receivable	29,608
Increase (Decrease) in:	
Accrued Expenses	<u>1,354</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 3,700,348

CASH FLOWS FROM INVESTING ACTIVITIES:

Net (Purchase) Sale of Investments Securities	( 18,824)
Acquisition of Fixed Assets	( 22,367)
Increase in Notes Receivable	( <u>440,000</u> )

NET CASH USED IN INVESTING ACTIVITIES ( 481,191)

NET INCREASE IN CASH 3,219,157

CASH - BEGINNING 142,830

CASH - ENDING 3,361,987

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Castle Square Tenants Organization, Inc. ("CSTO") is a Massachusetts nonprofit corporation. It was organized on May 5, 1988 and subsequently granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The tenants of the Castle Square Apartments (the "Project") organized CSTO to advance the mutual interests of the residents of the Project. These mutual interests are to: (1) improve the physical and social conditions of the Castle Square community; (2) to insure that the Project remains affordable to low and moderate income persons; (3) to raise funds for the improvement of the community; and (4) to provide the community with educational and informational services and opportunities.

CSTO's wholly owned subsidiary, CSTO Company, Inc. ("CSTO Company") was a general partner in a limited partnership called Trebhershaw Limited Partnership, a Massachusetts limited partnership ("Trebhershaw"), which owned Castle Square Apartments until November of 2010. In November of 2010, the ownership of the project was reorganized. CSTO Subsidiary, LLC is a wholly owned subsidiary of "CSTO." CSTO Subsidiary, LLC is the 51% managing member of CSTO Winn Manager, LLC. CSTO Winn Manager, LLC is the manager and .01% owner of CSTO Winn Owner, LLC (the owner of the project).

Castle Square Charitable Trust was established in 1997 to hold funds and assets transferred from CSTO. The trust was established as a Grantor Trust.

Summary of Significant Accounting Policies

CSTO prepares its financial statements on the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

Principles of Consolidation

CSTO conforms to the Statement of Position No. 94-3 of the American Institute of Certified Public Accounts. Accordingly, the accompanying consolidated financial statements include the financial statements of CSTO and its wholly-owned subsidiaries, CSTO Company, Inc. and Castle Square Charitable Trust, and CSTO Subsidiary, LLC, after elimination of all significant intercompany transaction and accounts.

Financial Statement Presentation

CSTO conforms to the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS 117, CSTO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, CSTO is required to present a statement of cash flows. It is the policy of the Board to consider the assets of Charitable Trust as temporarily restricted until such time as they make transfers to the unrestricted accounts.

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Company's policy to consider the assets of Castle Square Charitable Trust as temporarily restricted.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, CSTO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. From time to time during the year the Company maintains cash balances in excess of FDIC insured limits.

Use of Estimates

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

Investments

CSTO adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change of net assets.

The funds are invested in accordance with the Escrow Agreement, under the direction of the Trustees of the Castle Square Charitable Trust and investment advisors.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any expenditure not directly chargeable are allocated to a program based on related salary expenses

Income Taxes

CSTO is a qualified tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, no income tax provision is required.

Subsequent Events

Management has evaluated subsequent events through September 10, 2013, the date of these financial statements.

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE B – DOER GRANT

CSTO was approved for a \$4,400,000 grant with the Massachusetts Department of Energy Resources (DOER). The grant agreement is governed by the provisions of the American Recovery and Reinvestment Act of 2009. The grant money was loaned to Castle Square Winn Owner, LLC for energy related improvements to the project (roof and window replacement, heating system upgrade, sealing and ventilation work, and energy efficient appliances). As of December 31, 2012, \$4,400,000 of the grant has been received and expended.

NOTE C – NOTES RECEIVABLE

CSTO has loaned CSTO Winn Owner, LLC (the owner of the project) \$4,400,000. The proceeds of the DOER grant are to be used for energy efficient improvements to the project. As of December 31, 2012, CSTO has loaned the project \$4,400,000. The note is non-interest bearing and is due in its entirety at maturity (November 10, 2052). The note may be prepaid in whole or in part without permission or penalty.

In addition, CSTO has loaned CSTO Winn Owner, LLC an additional \$60,000. This note is non-interest bearing and is due in full on November 10, 2052.

NOTE D - INVESTMENT SECURITIES

Investments are stated at fair value and consist primarily of the mutual funds as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash Equivalent	\$ 23,465	\$ 23,465	\$ ----
Mutual Funds	<u>616,176</u>	<u>651,043</u>	<u>34,867</u>
	<u>\$639,641</u>	<u>\$674,508</u>	<u>\$34,867</u>

The following schedule summarized the investment return and its classification in the Statement of Activities for the year ended December 31, 2012.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and Dividends (Net of Fees of \$4,854)	\$1,025	\$14,707	\$15,732
Net Unrealized Gain	----	10,445	10,445
Realized Gain	----	<u>11,525</u>	<u>11,525</u>
	<u>\$1,025</u>	<u>\$36,677</u>	<u>\$37,702</u>

NOTE E – CONTINGENCIES

The Organization and its subsidiaries maintain cash accounts in F.D.I.C. insured banks. From time to time during the year, these balances may exceed F.D.I.C. insurance limits. In addition, the organization has a money market account and marketable securities which are not F.D.I.C. insured.

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>CSTO, Inc. Temporarily Restricted</u>	<u>Total</u>	<u>CSTO Company, Inc.</u>	<u>Castle Square Charitable Trust</u>	<u>CSTO Subsidiary LLC</u>	<u>Elimination</u>	<u>Consolidated Totals</u>
<b><u>ASSETS</u></b>								
Cash and Cash Equivalent	3,329,579	----	3,329,579	7,956	23,465	987	----	3,361,987
Investment Securities	----	----	----	----	651,043	----	----	651,043
Investment in Affiliate	1	----	1	----	----	----	( 1)	----
Fixed Assets	27,461	----	27,461	----	----	----	----	27,461
Accounts Receivable	7,982	----	7,982	----	----	----	( 7,956)	26
Notes Receivable	<u>4,460,000</u>	<u>----</u>	<u>4,460,000</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>4,460,000</u>
<b><u>TOTAL ASSETS</u></b>	<u>7,825,023</u>	<u>----</u>	<u>7,825,023</u>	<u>7,956</u>	<u>674,508</u>	<u>987</u>	<u>( 7,957)</u>	<u>8,500,517</u>
<b><u>LIABILITIES</u></b>								
Accrued Expenses	26,550	----	26,550	7,956	----	----	( 7,956)	26,550
Investments in Partnership	<u>----</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>20,661</u>	<u>----</u>	<u>20,661</u>
<b><u>TOTAL LIABILITIES</u></b>	<u>26,550</u>	<u>----</u>	<u>26,550</u>	<u>7,956</u>	<u>----</u>	<u>20,661</u>	<u>( 7,956)</u>	<u>47,211</u>
<b><u>NET ASSETS</u></b>								
Unrestricted	7,798,473	----	7,798,473	----	----	(19,674)	----	7,778,798
Temporarily Restricted	<u>----</u>	<u>----</u>	<u>----</u>	<u>----</u>	<u>674,508</u>	<u>----</u>	<u>----</u>	<u>674,508</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<u>7,825,023</u>	<u>----</u>	<u>7,825,023</u>	<u>----</u>	<u>674,508</u>	<u>987</u>	<u>( 1)</u>	<u>8,500,517</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>CSTO, Inc. Temporarily Restricted</u>	<u>Total</u>	<u>CSTO Company, Inc.</u>	<u>Castle Square Charitable Trust</u>	<u>CSTO Subsidiary LLC</u>	<u>Elimination</u>	<u>Consolidated Totals</u>
<u>SUPPORT AND REVENUE</u>								
Development Fee	2,972,996	----	2,972,996	----	----	----	----	2,972,996
Management Service Fee	441,011	----	441,011	----	----	----	----	441,011
Contributions`	27,384	----	27,384	----	----	----	----	27,384
Disposition Fee	121,842	----	121,842	----	----	----	----	121,842
Grants	474,088	----	474,088	----	----	----	----	474,088
Membership Dues	405	----	405	----	----	----	----	405
Program User Fees	51,762	----	51,762	----	----	----	----	51,762
Investment Return (Loss)	13	----	13	----	36,677	1,012	----	37,702
Partnership Income (Loss)	----	----	----	----	----	(19,467)	----	( 19,467)
Parking Fees	57,300	----	57,300	----	----	----	----	57,300
Expense Reimbursement	<u>143,520</u>	----	<u>143,520</u>	----	----	----	----	<u>143,520</u>
<u>TOTAL SUPPORT AND REVENUE</u>	<u>4,290,321</u>	----	<u>4,290,321</u>	----	<u>36,677</u>	<u>(18,455)</u>	----	<u>4,308,543</u>
<u>NET SUPPORT AND REVENUE</u>	<u>4,290,321</u>	----	<u>4,290,321</u>	----	<u>36,677</u>	<u>(18,455)</u>	----	<u>4,308,543</u>
Program Services	574,088	----	574,088	----	----	----	----	574,088
Management and General	<u>74,091</u>	----	<u>74,091</u>	----	----	----	----	<u>74,091</u>
<u>TOTAL EXPENSES</u>	<u>648,179</u>	----	<u>648,179</u>	----	----	----	----	<u>648,179</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>								
Unrestricted	3,642,142	----	3,642,142	----	----	(18,455)	----	3,623,687
Temporarily Restricted	----	----	----	----	36,677	----	----	36,677
<u>TOTAL INCREASE (DECREASE IN NET ASSETS)</u>	<u>3,642,142</u>	----	<u>3,642,142</u>	----	<u>36,677</u>	<u>(18,455)</u>	----	<u>3,660,364</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

CASTLE SQUARE TENANTS ORGANIZATION, INC.  
AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>CSTO, Inc. Temporarily Restricted</u>	<u>Total</u>	<u>CSTO Company, Inc.</u>	<u>Castle Square Charitable Trust</u>	<u>CSTO Subsidiary LLC</u>	<u>Elimination</u>	<u>Consolidated Totals</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	4,156,331	----	4,156,331	----	637,831	( 1,219)	( 1)	4,792,942
<u>INCREASE (DECREASE) IN NET ASSETS</u>								
Unrestricted	3,642,142	----	3,642,142	----	----	(18,455)	----	3,623,687
Temporarily Restricted	-----	-----	-----	-----	<u>36,677</u>	-----	-----	<u>36,677</u>
<u>NET ASSETS - END OF YEAR</u>	<u>7,798,473</u>	<u>-----</u>	<u>7,798,473</u>	<u>-----</u>	<u>674,508</u>	<u>(19,674)</u>	<u>( 1)</u>	<u>8,453,306</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION