

# **Codman Square Neighborhood Development Corporation And Subsidiaries**

Financial Statements  
and  
Auditors' Report

September 30, 2010 with Comparative Totals for 2009



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**Codman Square Neighborhood Development Corporation  
And Subsidiaries**

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# **Daniel Dennis & Company LLP**

*Certified Public Accountants*

The Board of Directors

**Codman Square Neighborhood Development Corporation and Subsidiaries**

## *Independent Auditors' Report*

We have audited the accompanying statement of financial position of Codman Square Neighborhood Development Corporation and Subsidiaries (CSNDC) (a nonprofit organization) as of September 30, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of CSNDC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from CSNDC's financial statements for the year ended September 30, 2009 and in our report dated March 8, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 CSNDC'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSNDC as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2011 on our consideration of CSNDC'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* and is important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also the additional supplemental consolidating schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 respected in relation to the financial statements as a whole.

*Daniel Dennis & Company LLP*

*February 25, 2011*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Consolidated Statement of Financial Position  
September 30, 2010  
With Comparative Totals for 2009

<i>Assets</i>	<i>2010</i>	<i>2009</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,760,005	\$ 4,091,914
Funds held in trust	183,836	189,982
Accounts receivable:		
Grants and contracts	507,035	170,900
Other - net of reserves	212,691	463,855
Deposits	75,000	2,500
Assets held for sale	597,399	-
Mortgage loans receivable - net of reserves	9,650	11,323
Prepaid expenses	<u>86,806</u>	<u>96,612</u>
Total current assets	<u>5,432,422</u>	<u>5,027,086</u>
<i>Property and Equipment</i>		
Land	1,386,259	1,341,259
Buildings and improvements	55,577,101	55,097,463
Office equipment and furniture	<u>2,851,229</u>	<u>2,532,359</u>
	59,814,589	58,971,081
Less accumulated depreciation	(21,677,839)	(20,105,780)
Construction in progress	<u>2,041,817</u>	<u>1,856,031</u>
Net property and equipment	<u>40,178,567</u>	<u>40,721,332</u>
<i>Noncurrent Assets</i>		
Cash - other	5,806,700	4,930,891
Real estate held for future use	3,353,465	3,902,656
Due from related parties	207,110	234,176
Capitalized fees	575,250	558,021
Deferred tax asset	14,469	7,485
Notes receivable and accrued interest - related parties - net of reserves	<u>3,507,193</u>	<u>2,997,463</u>
Total noncurrent assets	<u>13,464,187</u>	<u>12,630,692</u>
Total assets	<u>\$ 59,075,176</u>	<u>\$ 58,379,110</u>

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
 Consolidated Statement of Financial Position - *Continued*  
 September 30, 2010  
 With Comparative Totals for 2009

***Liabilities and Net Assets***

	2010	2009
<i>Current Liabilities</i>		
Accounts payable	\$ 424,553	\$ 460,105
Current portion of notes payable	5,800,033	3,858,286
Accrued expenses	243,029	280,670
Accrued interest	1,227,494	147,076
Prepaid rent	90,120	58,662
Deferred management fee	26,930	26,818
Due to related parties	193,537	208,508
Funds held in trust	<u>178,699</u>	<u>182,546</u>
Total current liabilities	<u>8,184,395</u>	<u>5,222,671</u>
<i>Noncurrent liabilities</i>		
Notes payable, net of current portion	27,822,065	30,405,050
Accrued interest	3,454,040	3,951,942
Losses in excess of investments in partnerships	<u>96,153</u>	<u>50,691</u>
Total noncurrent liabilities	<u>31,372,258</u>	<u>34,407,683</u>
Total liabilities	<u>39,556,653</u>	<u>39,630,354</u>
<i>Net Assets</i>		
Unrestricted	17,953,419	17,348,652
Permanently restricted	<u>1,565,104</u>	<u>1,400,104</u>
Total net assets	<u>19,518,523</u>	<u>18,748,756</u>
Total liabilities and net assets	<u>\$ 59,075,176</u>	<u>\$ 58,379,110</u>

*See accompanying notes to financial statements.*

# Codman Square Neighborhood Development Corporation and Subsidiaries

## Consolidated Statement of Activities

For the Year Ended September 30, 2010

With Summarized Comparative Totals for 2009

	<i>Unrestricted</i>	<i>Permanently Restricted</i>	<i>2010 Total</i>	<i>2009 Total</i>
<b>Revenue and Support</b>				
Contributions:				
Neighborhood reinvestment	\$ 90,250	\$ 165,000	\$ 255,250	\$ 195,057
HomeFree USA grant	32,509	-	32,509	123,235
Other	1,109,990	-	1,109,990	570,420
Government grants and contracts	226,907	-	226,907	105,050
Interest on notes receivable - related parties	157,039	-	157,039	140,265
Resident services fees - related parties	68,200	-	68,200	69,144
Management fees - related parties	368,262	-	368,262	218,238
Staff cost reimbursements - related parties	82,792	-	82,792	73,769
Developer fees - related parties	449,957	-	449,957	159,250
Interest income	83,929	-	83,929	159,530
Net loss on investments in partnerships	(44,577)	-	(44,577)	(39,772)
Rental income	6,014,780	-	6,014,780	5,135,993
Loan fees	1,670	-	1,670	8,450
Income tax benefit	6,984	-	6,984	8,030
Other	102,647	-	102,647	343,090
Total revenue and support	8,751,339	165,000	8,916,339	7,269,749
<b>Expenses</b>				
Program services				
Real estate development	370,993	-	370,993	410,979
Resident services	302,358	-	302,358	281,483
Neighborhood stabilization	314,839	-	314,839	291,713
Asset management	6,868,933	-	6,868,933	5,678,882
Economic development	61,677	-	61,677	47,592
Total program services	7,918,800	-	7,918,800	6,710,649
Supporting services				
General administrative	205,112	-	205,112	250,146
Fundraising	20,287	-	20,287	-
Total supporting services	225,399	-	225,399	250,146
Total expenses	8,144,199	-	8,144,199	6,960,795
Excess of revenue over expenses from operations	607,140	165,000	772,140	308,954
<b>Unusual items</b>				
Relinquishment of escrow to HUD	-	-	-	(2,964,357)
Contribution of partnership interests	-	-	-	14,570,501
Change in net assets	607,140	165,000	772,140	11,915,098
<b>Net assets, beginning of year</b>	17,348,652	1,400,104	18,748,756	6,833,658
Affects of unconsolidated subsidiaries	(2,373)	-	(2,373)	-
<b>Net assets, beginning of year - restated</b>	17,346,279	1,400,104	18,746,383	6,833,658
<b>Net assets, end of year</b>	\$ 17,953,419	\$ 1,565,104	\$ 19,518,523	\$ 18,748,756

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended September 30, 2010**  
**With Summarized Comparative Totals for 2009**

	<i>Real Estate Development</i>	<i>Resident Services</i>	<i>Neighborhood Stabilization</i>	<i>Asset Management</i>	<i>Economic Development</i>	<i>Total Programs</i>	<i>General Administrative</i>	<i>Fundraising</i>	<i>2010 Total</i>	<i>2009 Total</i>
Salaries	\$ 239,507	\$ 198,317	\$ 183,607	\$ 684,763	\$ 40,454	\$ 1,346,648	\$ 134,535	\$ 13,306	\$ 1,494,489	\$ 1,391,722
Employee benefits	41,486	34,354	31,805	137,761	7,008	252,414	23,300	2,304	278,018	-
Payroll taxes	15,987	13,238	12,256	20,790	2,700	64,971	8,986	889	74,846	253,026
Total salaries and related expenses	<u>296,980</u>	<u>245,909</u>	<u>227,668</u>	<u>843,314</u>	<u>50,162</u>	<u>1,664,033</u>	<u>166,821</u>	<u>16,499</u>	<u>1,847,353</u>	<u>1,644,748</u>
Professional fees	11,499	5,185	16,243	155,506	1,058	189,491	3,518	348	193,357	159,626
Consulting fees	12,108	10,025	9,282	24,747	2,045	58,207	6,800	673	65,680	41,397
Program expenses	9,561	7,917	7,330	4,379	1,615	30,802	5,371	531	36,704	38,131
Meals	1,279	1,059	980	586	216	4,120	719	71	4,910	5,859
Travel, conferences and meetings	2,803	2,321	2,149	1,768	473	9,514	1,574	156	11,244	13,942
Staff training	2,902	2,403	2,225	2,524	490	10,544	1,631	161	12,336	7,575
Telephone	3,355	2,778	2,572	42,524	567	51,796	1,885	186	53,867	39,669
Utilities	2,280	1,888	2,926	858,648	385	866,127	1,280	127	867,534	791,364
Postage and delivery	760	629	582	6,532	128	8,631	427	42	9,100	8,881
Subscriptions and memberships	2,054	1,701	1,575	941	347	6,618	1,154	114	7,886	6,278
Advertising	1,478	1,224	1,133	980	250	5,065	830	82	5,977	9,611
Office expense	8,698	7,202	6,668	42,567	1,469	66,604	4,886	483	71,973	61,445
Community benefit expense	2,641	2,187	2,025	1,210	446	8,509	1,484	147	10,140	9,180
Special events	3,008	2,491	2,306	1,378	508	9,691	1,690	167	11,548	8,722
Insurance	2,185	1,809	1,675	118,979	369	125,017	1,228	121	126,366	101,681
Temporary personnel	288	238	221	132	49	928	162	16	1,106	1,001
Interest expense	247	204	189	1,121,404	42	1,122,086	138	14	1,122,238	1,029,476
Contracted services	-	-	-	803,251	-	803,251	-	-	803,251	545,779
Repairs and maintenance	117	97	5,437	186,756	20	192,427	65	7	192,499	161,120
Development	989	819	758	453	167	3,186	556	55	3,797	16,111
Real estate taxes	70	58	891	482,881	12	483,912	39	4	483,955	407,530
Taxes and fees	456	-	456	85,699	-	86,611	-	-	86,611	6,852
Bad debt	-	-	-	36,092	-	36,092	-	-	36,092	13,279
Depreciation and amortization	3,674	3,042	2,816	1,651,108	620	1,661,260	2,064	204	1,663,528	1,465,451
Management fees	-	-	-	341,725	-	341,725	-	-	341,725	269,247
Miscellaneous	1,561	1,172	16,732	52,849	239	72,553	790	79	73,422	96,840
Total expenses	<u>\$ 370,993</u>	<u>\$ 302,358</u>	<u>\$ 314,839</u>	<u>\$ 6,868,933</u>	<u>\$ 61,677</u>	<u>\$ 7,918,800</u>	<u>\$ 205,112</u>	<u>\$ 20,287</u>	<u>\$ 8,144,199</u>	<u>\$ 6,960,795</u>

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended September 30, 2010**  
**With Comparative Totals for 2009**

	2010	2009
<i>Cash Flows From Operating Activities:</i>		
Change in net assets	\$ 772,140	\$ 11,915,098
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,663,528	1,465,451
Bad debt expense	36,092	13,279
Non-cash contributions	-	(14,570,501)
Relinquishment of escrow to HUD	-	2,964,357
Accrued interest income	(157,039)	(140,265)
Affects of unconsolidated subsidiary	(5,754)	-
Net loss on investments in partnerships	44,577	39,772
(Increase)/decrease in operating assets:		
Funds held in trust	7,193	14,980
Accounts receivable	28,192	773,006
Deposits	(72,500)	(2,500)
Deferred tax asset	(6,984)	(8,030)
Grant and contracts receivable	(336,135)	186,443
Mortgage loans receivable	1,673	1,085
Assets held for sale	(341,024)	-
Prepaid expenses	8,758	(5,708)
Increase/(decrease) in operating liabilities:		
Accounts payable	146,720	46,401
Accrued expenses	531,078	67,205
Deferred revenue	25,225	5,417
Funds held in trust	(3,848)	(3,132)
Net cash provided by operating activities	<u>2,341,892</u>	<u>2,762,358</u>
<i>Cash flows from investing activities:</i>		
(Increase)/decrease in cash - other	(870,785)	462,436
Increase/(decrease) in amounts due to related parties	183,267	(468,298)
Decrease in related party notes receivable	-	885,619
Payments for capitalized costs	(650,921)	(138,764)
Payments for property and equipment	<u>(1,290,629)</u>	<u>(1,712,946)</u>
Net cash used by investing activities	<u>(2,629,068)</u>	<u>(971,953)</u>
<i>Cash flows from financing activities:</i>		
Proceeds from notes payable	478,612	9,092,182
Repayment of notes payable	<u>(523,345)</u>	<u>(9,658,028)</u>
Net cash used by financing activities	<u>(44,733)</u>	<u>(565,846)</u>
Net change in cash	<u>(331,909)</u>	<u>1,224,559</u>
Cash, beginning of year	<u>4,091,914</u>	<u>2,867,355</u>
Cash, at end of year	<u>\$ 3,760,005</u>	<u>\$ 4,091,914</u>
<i>Supplementary Disclosure of Cash Flow Information</i>		
Cash paid during the year for interest	<u>\$ 778,843</u>	<u>\$ 649,253</u>
Cash paid during the year for income taxes	<u>\$ 12,492</u>	<u>\$ 11,856</u>

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements  
September 30, 2010

**1. *The Organization***

Codman Square Neighborhood Development Corporation (CSNDC), a not-for-profit corporation, is committed to maintaining and increasing the availability of affordable housing, promoting and assisting with commercial revitalization and economic development and providing services that enhance the sense of community and quality of life to residents in the Codman Square area of Dorchester, Massachusetts.

Program services rendered by CSNDC are as follows:

*Real Estate Development*

Development includes CSNDC's and its subsidiaries' efforts to rehabilitate residential and commercial properties in the Codman Square neighborhood. This activity includes efforts conducted through On The Square, Inc. to revitalize Codman Square's commercial district by acquiring, rehabilitating and leasing a key block in the neighborhood.

*Resident Services*

Resident Services provides social services for residents of the properties which CSNDC has developed as well as providing for the involvement of these residents in various community development and youth programs.

*Neighborhood Stabilization*

Neighborhood Stabilization includes programs that provide loans and technical assistance to allow first-time homebuyers and existing homeowners of low to moderate income the opportunity to purchase or rehabilitate properties in the Codman Square area. Neighborhood Stabilization includes participation in the City of Boston's One-to-Four program. Under this program, Codman Square Rehab, Inc. acquires and rehabilitates one-to-four family residential properties, which are sold to first time homebuyers of low to moderate income.

*Asset Management*

Asset Management is the ownership and management of properties CSNDC has developed in the past. These efforts are aimed at ensuring that the properties meet the needs of their low to moderate income residents as well as maintaining the financial viability of these properties in the future.

*Economic Development*

The program's goal is to contribute to neighborhood stabilization by developing, growing and preserving community assets. While the focus is on financial assets, the goal is to strengthen people's confidence in their futures and in their neighborhood's future.

This program helps people build personal savings, achieve homeownership and succeed as homeowners, develop and grow small business and helping owner occupants of 1- to 4-family homes plan for equipment replacements and handle emergency repairs. Collectively the strength of these assets helps to stabilize neighborhoods.

## **Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

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

#### *Basis of Accounting:*

The financial statements of CSNDC have been prepared on the accrual method of accounting. Accordingly, revenue is recorded when earned and expense is recorded when goods are received or services are rendered.

#### *Reporting Entity*

CSNDC and its subsidiaries are related by common control to three other nonprofit organizations, Talbot Bernard Senior Housing, Inc., 538 Talbot Avenue, Inc. and 526 Park Street, Inc. The financial statements do not include the financial position and activities of those organizations.

#### *Principles of Consolidation*

CSNDC has twenty-seven subsidiaries, all of which are wholly owned. These subsidiaries are: Norfolk Terrace Corporation (NTC), which owns 1% of Norfolk Terrace Limited Partnership; Codman Square Apartments, Inc. (CSA), which owns 1% of Codman Square Limited Partnership; Washington Columbia Apartments, Inc. (WCA) which owns 1% of Washington Columbia Limited Partnership; Washington Columbia II Apartments, Inc. (WC2A), which owns 1% of Washington Columbia II Limited Partnership; Lithgow Apartments, Inc. (LAI), which owns 1% of Lithgow Residential Limited Partnership and .01% of New Lithgow LLC; Lithgow Commercial, Inc. (LCI), which owns 1% of Lithgow Commercial Limited Partnership; Lithgow, Inc. (LI), Lithgow Apartments, Inc. (LAI), which owns 1% of New Lithgow Residential LLC; 766 Washington Associates, Inc. (766WIA), which owns 50% of 766 Washington Associates; Erie Ellington Homes, Inc. (EEH), which owns 0.01% of Erie Ellington Limited Partnership; Talbot Bernard Corporation (TBC), which owns 0.01% of Talbot Bernard Housing, LLC; Four Corners Plaza, LLC (FCP), which was organized to purchase and rehabilitate commercial property; Norfolk Management Company (NMC), a real estate management company which discontinued operations in 1990; On the Square, Inc. (OTS), which was organized to lease commercial property; Lithgow Commercial Limited Partnership (LCLP) which was organized to lease commercial property; Codman Square Rehab, Inc. (CSR), which was organized to purchase, rehabilitate, and resell one-to four unit residential properties; NDC Holding Company, Inc. (NDCH), which holds property held for future use; Codman Square Housing Services, Inc. (CSHS), which was organized to provide various housing related services to area residents; Girls Latin Academy, LLC (GLA), which was organized to purchase, rehabilitate and rent residential real estate; 157 Reality Trust, which was organized to purchase, rehabilitate and re-sell properties; Codman Community Development, Inc, which was organized to support the charitable purposes of CSNDC, Girls Latin Lessor, which was organized to lease residential property; Girls Latin Academy, Inc. (GLA) which owns 1% of Girls Latin Academy, LLC; New Lithgow Holdings LLC (NLH), which owns 99% of Lithgow Residential Limited Partnership.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

2. *Summary of Significant Account Policies – Continued*

*Principals of Consolidation – Continued*

Washington Columbia Apartments Limited Partnership (WCA) which was organized to lease residential property; Washington Columbia Apartments II Limited Partnership (WCAII) which was organized to lease residential property and Talbot Station LLC (TS LLC) organized to acquire and develop commercial property.

NTC, CSA, WCA, WC2A, LAI, LCI, LI, EEH and TBC are the general partners for their respective limited partnerships. 766 Washington Associates, Inc. is co-general partner of 766 Washington Associates, a general partnership. All twenty-seven subsidiaries are for-profit corporations, limited liability companies or limited partnerships.

For financial reporting purposes, the financial position and activities of CSNDC and the twenty-seven wholly owned entities listed above have been consolidated and all significant intercompany accounts and transactions have been eliminated.

*Financial Statement Presentation*

CSNDC externally reports resources into different net asset categories according to externally imposed donor restrictions. Accordingly, net assets of CSNDC and changes therein are reported in three net asset categories as follows:

*Unrestricted Net Assets*

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. The Board of Directors has discretionary control over all of these assets and may elect to designate such resources for specific purposes. This designation may be removed at the board's direction.

*Temporarily Restricted Net Assets*

Temporarily restricted net assets represent net assets subject to donor-imposed or grant stipulations for specific operating or capital purposes. These assets will become unrestricted when the requirements of the donor or grantor have been satisfied either by the expenditure for the specified purpose or program or through the passage of time. As of September 30, 2010 and 2009 CSNDC did not have any temporarily restricted net assets.

## **Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

### **2. *Summary of Significant Account Policies – Continued***

#### *Permanently Restricted Net Assets*

Permanently restricted net assets represent net assets subject to donor-imposed stipulations required to be maintained permanently by CSNDC. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments. Contributions from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund (NRC) fall within this class of net assets. NRC makes grants for purposes that will build assets of an organization and for the community in which it operates.

#### *Contributions, Gifts and Grants*

Contributions are recorded as receivables and revenues and CSNDC distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, other assets or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at fair value on the date of the gift.

#### *Cash and Cash Equivalents*

For purposes of these financial statements, CSNDC considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Funds held in trust are not considered cash or cash equivalents for financial statement purposes.

#### *Property and Equipment*

Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of donation. Major improvements and betterments to existing property are capitalized. Expenditures for maintenance and repairs which do not increase the value or extend the lives of the applicable assets are charged to expense as incurred. CSNDC uses the direct expensing method to account for planned major maintenance activities, such as exterior painting, under which actual costs incurred are expensed directly when maintenance is performed

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

2. *Summary of Significant Account Policies – Continued*

*Functional Allocation of Expenses*

The costs of providing the various programs and the administration of CSNDC have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting services benefited.

*Construction in Process*

In connection with its real-estate development activities CSNDC capitalizes all pre-acquisition, acquisition, development and construction costs as construction in process.

CSNDC follows the policy of capitalizing interest on notes financing the construction of projects to be sold as a component of construction in process. As of September 30, 2010 and 2009 capitalized interest was \$227,111 and \$109,685, respectively.

*Investments in Partnerships*

The Subsidiaries' investments in each of the partnerships are accounted for using the equity method. To date, accumulated losses in these partnerships exceed the investments.

*Accounts and Notes Receivable*

Accounts receivable are presented net of allowance for doubtful accounts. CSNDC's periodic evaluation of the adequacy of the allowance is based on past experience. Accounts receivable are charged off when deemed uncollectible.

*Interest Income*

Interest income on mortgage loans receivable is recognized as it is earned. Mortgage loans receivable are considered delinquent after fifteen days but continue to accrue interest. Interest income on impaired loans is recognized as cash is collected.

*Allowance for Mortgage Loans Receivable*

Provisions for allowance for mortgage loans receivable are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal.

*Fair Value of Financial Instruments*

The fair value of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**2. *Summary of Significant Account Policies – Continued***

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Income Taxes*

CSNDC is exempt from income taxes as a non-profit corporation under Section 501(c)(3) of the U.S. Internal Revenue Code and is also exempt from state income taxes, except for income taxes on unrelated business income, if any. For the year ended September 30, 2010, CSNDC had no unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements. CSNDC's for-profit subsidiaries file separate income tax returns.

CSNDC's for-profit corporate subsidiaries account for income taxes, whereby deferred taxes are recognized using the liability method. This method calculated deferred tax assets and liabilities based on tax rates that are expected to apply when temporary differences reverse.

Regarding CSNDC's partnership and LLC subsidiaries, no provision has been made for Federal or state income taxes since each partner or member includes its pro-rata share of net income or loss in its return. CSNDC evaluates tax positions taken or expected to be taken in its tax returns and in its subsidiaries' tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. At September 30, 2010, CSNDC believes that it has no uncertain tax positions within its tax returns and within any of its subsidiaries' open tax returns.

*Below Market Loans*

Section 42 of the Internal Revenue Code governs the administration of the Low Income Housing Tax Credit (LIHTC), a tax incentive created to foster a legislated public policy directive of the United States of America to create affordable low income housing. Several of CSNDC's subsidiary partnerships were formed in order to create low income housing in order to generate LIHTC.

Other governmental entities having a similar policy have lent money to CSNDC's subsidiary partnerships at advantageous terms. The subsidiary partnerships have not discounted these below market interest rate loans as they were made at arm's length and to preserve the integrity of costs eligible for the LIHTC.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**3. *Related Party Transactions***

*Notes Receivable and Accrued Interest Receivable – Related Parties*

CSNDC recorded the following transactions related to notes receivable and accrued interest during the year ended September 30, 2010 and 2009:

The balance includes a development fee receivable and accrued interest due from Talbot Bernard Housing LLC totaling \$300,178 and \$327,141 for the years ending September 30, 2010 and 2009, respectively. The outstanding balance accrues interest at 7% compounded annually. The partnership makes payments to CSNDC from allowable distributions of surplus funds generated by operations. Interest of \$15,754 and \$16,170 was accrued in fiscal year 2010 and 2009, respectively.

The balance also includes notes receivable from Talbot Bernard Housing LLC totaling \$963,000. These notes bear interest at 5% and are due October 2032. Accrued interest at September 30, 2010 and 2009 was \$448,618 and \$381,398, respectively. Interest of \$67,244 and \$64,019 were recognized in fiscal years 2010 and 2009, respectively.

The balance also includes a \$714,000 note receivable due from Erie Ellington LP received in exchange for real estate valued at \$464,000 and a \$250,000 cash advance made in September 1999. The note has a stated interest rate of 1% compounded annually and is secured by a mortgage on the property. Principal and interest are due September 2019. The note is being carried at a discounted value of \$545,210, using a discount rate of 5%. Interest of \$20,060 and \$7,823 were recognized in fiscal years 2010 and 2009, respectively.

The balance also includes a note receivable from Girls Latin Academy II LLC of \$718,900. The note bears interest at 7% compounded annually and is secured by a junior mortgage on the property. Accrued interest at September 30, 2010 and 2009 was \$106,234 and \$52,253, respectively. Principal and interest are due September 2038. Interest of \$53,981 and \$52,253 were recognized in fiscal years 2010 and 2009, respectively.

At September 30, 2010 the balance also includes a notes receivable from 241 Talbot LLC of \$209,087. The notes have no stated terms.

The balance also includes a note receivable and accrued interest from Codman Square Limited Partnership of \$1,916,863 for the development of residential property in 1985. The note bears interest at 12% compounded annually and is secured by a junior mortgage on the property. Principal of \$490,432 and accrued interest were due June 2002. The loan was in default as of September 30, 2010 and management has recorded an allowance for uncollectible notes receivable of \$1,907,302.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**3. Related Party Transactions – Continued**

*Notes Receivable and Accrued Interest Receivable – Related Parties – Continued*

The balance includes a development fee receivable due from New Lithgow LLC totaling \$195,891 and \$0 for the years ending September 30, 2010 and 2009, respectively. The outstanding balance is interest free. The LLC makes payments to CSNDC from net cash flow from the Project as defined or from proceeds from a sale or refinancing and in any event no later than December 31, 2020.

*Other Amounts Due From – Related Parties*

The following balances are fully reserved at September 30, 2010 and 2009:

*Advances to Related Parties with No Stated Interest Rates*

	2010	2009
Codman Square Limited Partnership	\$ 345,137	\$ 345,137
Girls Latin Academy II LLC	\$ 471,838	\$ 471,838
526 Park Street, Inc.	\$ 53,073	\$ 53,073

	2010	2009
<i>Notes Receivable and Accrued Interest Receivable</i>		
Due from Erie Ellington LP for the development of residential property in 1999. The note was funded with a grant to CSNDC from Federal Home Loan Bank of Boston, and bears no interest. Principal is due September 2019.	\$ 250,000	\$ 250,000
Due from Norfolk Terrace LP for the development of residential property in 1983. The notes bear interest at 12% compounded annually and are secured by a junior mortgages on the property. Principal of \$118,588 and accrued interest were due May 2009. The loan was in default as of September 30, 2010.	\$ 1,178,837	\$ 1,178,837
<i>Note Payable and Accrued Interest Payable</i>		
Note payable to the City of Boston, with an 11% stated interest rate, secured by 12% second mortgage note receivable from Norfolk Terrace LP (above). The City of Boston has recourse on the note only against the buildings of Norfolk Terrace LP. The balance includes principal of \$108,588.	\$ (108,588)	\$ (108,588)

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**3. *Related Party Transactions – Continued***

*Income from Related Parties*

For the year ended September 30, 2010 and 2009, CSNDC recorded income from related parties as follows:

*Interest on Notes Receivable – Related Parties*

This is the interest accrued in the current year on notes payable to CSNDC from Erie Ellington LP, Talbot Bernard LLC and Girls Latin Academy II LLC described above.

*Staff Costs Reimbursement Fees*

During fiscal year 2010 CSNDC earned staff costs reimbursement fee income of \$82,792 from 241 Talbot Ave and during fiscal year 2009 CSNDC earned staff costs reimbursement fee income of \$73,769 from New Lithgow Residential LLC.

*Developer Fees*

During fiscal year 2010 CSNDC earned developer fee income of \$254,066 from 241 Talbot Ave and \$195,891 from New Lithgow Residential LLC. During fiscal year 2009 CSNDC earned developer fee income of \$80,184 from New Lithgow Residential LLC and \$79,066 from other related limited partnerships.

*Management Fees*

During fiscal year 2010 and 2009 management fees earned by CSNDC were \$368,262 and \$218,238, respectively.

*Resident Service Fees*

During fiscal year 2010 and 2009 resident service fees earned by CSNDC were \$68,200 and \$69,144, respectively. The income earned is for costs reimbursed to CSNDC from Erie Ellington LP, Codman Square LP and Talbot Bernard LLC for services provided to residents.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**4. Reserve for Uncollectible Receivables**

Certain receivables have been presented in the statement of financial position net of reserves for estimated uncollectible amounts, as follows for fiscal years 2010 and 2009:

<i>2010</i>	<u>Total</u>	<u>Reserve</u>	<u>Net</u>
Accounts receivable - other	\$ 439,372	\$ (226,681)	\$ 212,691
Mortgage loans receivable	\$ 42,650	\$ (33,000)	\$ 9,650
Notes receivable - related parties	\$ 7,614,338	\$ (4,107,145)	\$ 3,507,193
<i>2009</i>	<u>Total</u>	<u>Reserve</u>	<u>Net</u>
Accounts receivable - other	\$ 508,855	\$ (45,000)	\$ 463,855
Mortgage loans receivable	\$ 44,323	\$ (33,000)	\$ 11,323
Notes receivable - related parties	\$ 7,095,062	\$ (4,097,599)	\$ 2,997,463

**5. Cash - Other**

As the general partners of limited partnerships, WCA and WC2A are required by the limited partnership agreements to maintain a minimum net worth on deposit. NDCH, WCAI, WCAII, GLA and LCLP are required to maintain separate accounts for escrows per mortgage notes. Cash – other includes those combined net worth accounts and escrows.

**6. Mortgage Loans Receivable**

CSHS maintains a homeowner loan program. Under this program, CSHS uses a line of credit with a local bank and capital grants from Neighborhood Reinvestment Corporation, passed through CSNDC, to make loans to qualified homeowners at below market interest rates. The current loan periods range from seven to fifteen years, and interest rates range from 3.0% to 6.5%.

**7. Construction in Process**

Costs incurred for the acquisition and development of active properties are capitalized as construction in progress. These costs are expected to be fully recovered when the properties are sold or syndicated.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**7. Construction in Process – Continued**

The balance consists of the following:

	2010	2009
NDC Holdings, Inc.	\$ 1,622,337	\$ 1,548,459
Codman Square Rehab, Inc.	<u>419,480</u>	<u>307,572</u>
Total	<u>\$ 2,041,817</u>	<u>\$ 1,856,031</u>

**8. Notes Payable**

Notes payable consist of the following:

	2010	2009
<i>CSNDC</i>		
CSNDC has several recoverable grants from Local Initiatives Support Corporation (LISC), totaling \$35,000, for the development of various properties. These loans bear no interest and repayments are due on demand.	\$ 35,000	\$ 35,000
A loan from CEDAC passed through to NDC Holdings. The note bears interest at 0% per annum and repayment is due upon the closing of permanent financing for the property.	153,024	113,190
A Site Assessment loan from Massachusetts Development Finance Agency in the amount of \$80,000 passed through to 241 Talbot LLC. The proceeds are to be used solely for reimbursement of the estimated costs of the remediation of 241 Talbot Ave. Repayment is due in full upon the occurrence of the triggering events as defined in the loan agreement. If a triggering event does not occur before the issuance of certificate of occupancy for the Project or by September 2012, CSNDC will have no obligation to repay the loan. Outstanding amounts after the due date will accrue interest at 3% per annum.	79,322	79,322
A Predevelopment loan from Neighborhood Capital Corporation in the amount of \$150,000 passed through to 157 Reality Trust. The loan bears interest at 4% per annum. Repayment is due upon the earlier of closing and initial disbursement of construction financing for the project or December 23, 2011.	150,000	150,000

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**8. Notes Payable - Continued**

	2010	2009
A Predevelopment loan from LISC in the amount of \$50,000 passed through to 157 Reality Trust. The loan bears interest at 4% per annum and is payable on a quarterly basis until all amounts due under the note are paid in full. Repayment was extended from September 1, 2008 until September 1, 2010. As of September 30, 2010 this loan was in default.	50,000	50,000
A Predevelopment loan from LISC in the amount of \$50,000 passed through to 241 Talbot LLC. Repayment is due upon the earlier of closing and initial funding date of any construction financing or the second anniversary of the first full month after the closing date.	48,396	46,448
A loan from Massachusetts Development Finance Agency in the amount of \$27,000, passed through to FCP. Repayment is due in full within thirty days of a triggering event if it occurs within five years of December 19, 2005. If the funds are not repaid within 30 days of the triggering event the funds shall bear interest at 8% per annum from the date of the triggering event for a period not to exceed three years.	24,161	24,161
A Site Assessment loan from Massachusetts Development Finance Agency in the amount of \$23,000, passed through to 157 Reality Trust. Repayment is due in full on the earlier of April 18, 2011, or the occurrence of a triggering event as defined in the loan agreement. Outstanding amounts after the due date will accrue interest at 8% per annum.	12,200	12,200
An acquisition loan from the Boston Redevelopment Authority in the amount of \$75,000 passed through to 157 Reality Trust. The loan bears no interest and repayment is due upon the closing of the acquisition or loan closing for the property. During 2007, 157 Realty Trust closed on the acquisition of the property. As of September 30, 2010 the loan was in default.	75,000	75,000
The Corporation acquired an interest free predevelopment note payable from the City of Boston's Department of Neighborhood Development, providing for a maximum loan amount of \$75,000. The note is secured by the Franklin Field South III Project. Repayment was extended from March 1, 2008 to March 1, 2010. As of September 30, 2010 the loan was in default.	63,640	63,640

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**8. Notes Payable – Continued**

	2010	2009
<p>The Corporation acquired a predevelopment note payable from CEDAC, providing for a maximum loan amount of \$200,000. The notes bears interest at 7% per annum and the note is secured by the Franklin Field South III Project. Repayment is due upon securing construction financing. Interest accrued and capitalized as of September 30, 2010 and 2009 was \$33,555 and \$15,252, respectively.</p>	130,733	130,733
<p>A Predevelopment loan from LISC in the amount of \$30,000. Repayment is due upon the earlier of closing of construction financing or February 1, 2012. The loan bears no interest.</p>	15,000	-
<i>NDC Holdings</i>		
<p>The Corporation has a note payable to Citizens Bank, providing for a maximum loan amount of \$952,000 with 3% interest. The loan is secured by real estate at 4-6 Lyndhurst Avenue and is guaranteed by CSNDC. Repayment is due May 31, 2011.</p>	842,287	842,287
<i>Girls Latin Academy LLC</i>		
<p>MassHousing has provided the first mortgage financing in the amount of \$3,592,560. The loan is secured by a mortgage, security agreement and assignment of leases and rents. This loan bears interest at 4.95% per annum compounded monthly and requires monthly payments toward interest and principal of \$5,864 for years 2006 through 2011. Thereafter monthly payments towards interest and principal will be \$18,373. This loan is payable in full at August 15, 2041. As of September 30, 2010 and 2009 the deferred interest was \$516,049 and \$393,876, respectively.</p>	3,568,445	3,570,256
<p>MassHousing has provided mortgage financing in the amount of \$3,564,276 (the SHARP loan). The loan is secured by a mortgage, security agreement and assignment of leases and rents. This loan bears interest at 1%. Repayment will commence after the first mortgage note is paid in full with monthly payments under the same terms as the first mortgage note. As of September 30, 2010 and 2009 the deferred interest was \$2,498,558 and \$2,462,718, respectively.</p>	3,564,276	3,564,276

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**8. Notes Payable-Continued**

	2010	2009
GLA acquired a non-interest bearing Housing Stabilization Fund Loan from the Department of Housing and Community Development in the amount of \$750,000. This loan has a maturity date of August 14, 2056.	750,000	750,000
GLA acquired a non-interest bearing Lead Loan from the Department of Neighborhood Development in the amount of \$80,000. Repayment is due in full on August 15, 2011.	80,000	80,000
GLA has a note payable to Department of Neighborhood Development in the amount of \$1,427,492. The loan bears interest at 1% per annum and repayment is due in full on August 15, 2015. As of September 30, 2010 and 2009 accrued interest was \$65,343 and \$50,562, respectively.	1,427,492	1,427,492
<i>157 Washington Reality Trust (the Trust)</i>		
The Trust has a note payable to Life Insurance Community Initiative, LLC, providing for a maximum loan amount of \$1,258,750, not to exceed 95% of appraised value. The note has an interest rate of 6.5% per annum which was deferred until original maturity of August 13, 2009, thereafter interest is to be paid monthly. As of September 30, 2010 and 2009 accrued interest included in the principal was \$166,138. As of September 30, 2010 and 2009 accrued interest payable was \$23,669 and \$1,999, respectively. Repayment was extended from August 13, 2009 until August 13, 2010. As of September 30, 2010 the loan was in default.	1,424,888	1,424,888
The Trust has a note payable to LISC, providing for a maximum loan amount of \$450,000. The note has an interest rate of 5.61% per annum. As of September 30, 2010 and 2009 accrued interest was \$500 and \$1,533, respectively. Repayment was due on the earlier of the date of closing on any portion of the construction financing or September 1, 2010. As of September 30, 2010 the loan was in default.	201,277	193,004
<i>241 Talbot Avenue LLC (TA LLC)</i>		
The balance consists of two notes payable by a subsidiary whose interest was divested during fiscal year 2010 and therefore not included in the consolidation at September 30, 2010.	-	596,505

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**8. Notes Payable-Continued**

<i>Codman Square Rehab, Inc.</i>	2010	2009
<p>The Corporation has a note payable to the Neighborhood Stabilization Fund, providing for a maximum loan amount of \$525,000 as of September 30, 2010, \$515,000 has been received. The interest rate is 6% per annum and the loan is secured by the 412 Talbot Ave. Project. Interest accrued as of September 30, 2010 and 2009 was \$27,378 and \$1,861, respectively. Repayment was due September 7, 2010. As of September 30, 2010 the loan was in default.</p>	515,000	385,000
<p>The Corporation has a note payable to the Neighborhood Stabilization Fund, providing for a maximum loan amount of \$320,000 as of September 30, 2010, \$226,000 has been received. The interest rate is 7% per annum and the loan is secured by the 15 Mallard Avenue Project. Repayment is due April 30, 2012. Interest accrued as of September 30, 2010 was \$15,996.</p>	226,000	-
<p>The Corporation has a note payable to the Department of Neighborhood Development, providing for a maximum loan amount of \$206,172. As of September 30, 2010, \$57,557 has been received. The loan is secured by the 412 Talbot Ave Project. Repayment of the loan is due upon the completion and sale of the 412 Talbot Ave Project.</p>	57,557	-
<i>Talbot Station I LLC (TS LLC)</i>		
<p>TS LLC has a note payable to LISC, providing for a maximum loan amount of \$749,500. The note has an interest rate of 5% per annum. Repayment is due on the earlier of the date of closing on any portion of the construction financing or June 26, 2012. As of September 30, 2010 and 2009 accrued interest was \$2,999 and \$0, respectively.</p>	405,000	405,000
<i>On The Square, Inc.</i>		
<p>OTS has a \$976,000 note payable to Citizens Bank, secured by the property and the assignment of rents and leases, with interest at 6.59%. Monthly payments of \$6,645 are calculated based on a twenty-five-year amortization schedule. Any unpaid balance will be due in 2015. The note is guaranteed by CSDNC.</p>	871,100	892,150

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**8. Notes Payable-Continued**

	2010	2009
<p>OTS has a \$240,128 note payable to the City of Boston's Department of Neighborhood Development, secured by a mortgage on the property. The note bears interest at 4% for the five years ended September 30, 2008, 6% for the two years ended September 2010, 7% for the two years ended September 30, 2012 and 8% for the three years ended September 30, 2015. Principal and interest are payable monthly based on a twenty-year amortization schedule. Unpaid principal and interest are due September 2015. OTS must meet certain loan covenants relating to profitability and debt service coverage. Accrued interest as of September 30, 2010 and 2009 was \$5,541 and \$5,712, respectively. The note is guaranteed by CSDNC.</p>	113,017	121,710
<i>Lithgow Commercial Limited Partnership</i>		
<p>The Partnership has a mortgage note payable to Bank of America, with interest at a fixed rate of 5.01%, secured by a first mortgage on the Project and an assignment of leases and rents. The note requires monthly payments of \$5,845, with the balance due July 1 2011. Accrued interest at September 30, 2010 and 2009 was \$4,458 and \$0, respectively.</p>	1,070,190	1,085,555
<p>The Partnership has a 5% construction loan payable to the Department of Neighborhood Development of the City of Boston in the amount of \$720,000, secured by a third mortgage on the Project. Principal and interest are due on July 1, 2011. Accrued interest at September 30, 2010 and 2009 was \$1,128,267 and \$1,044,786, respectively.</p>	720,000	720,000
<i>Washington Columbia Limited Partnership</i>		
<p>The Partnership has a first mortgage note payable to CAPMARK Financial, Inc., in the original amount of \$1,543,400, secured by the Project and an assignment of rents and leases. The note is payable in monthly installments of \$8,880, which include interest at 5.62%. Principal and interest are due October 2035.</p>	1,431,465	1,456,797
<p>The Partnership has a second mortgage note payable to HUD in the original amount of \$6,070,335, secured by the Project and an assignment of rents and leases. Interest accrues on the unpaid balance at 1% simple. The note is payable in annual installments of an amount equal to 100% of <i>Restricted Cash Surplus</i>, as defined in the loan agreement. Principal and interest are due October 2035. Accrued interest at September 30, 2010 and 2009 was \$92,997 and \$42,763, respectively.</p>	4,478,256	4,849,909

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**8. Notes Payable-Continued**

	2010	2009
<p>The Partnership has a third mortgage note payable to HUD in the original amount of \$170,300, secured by the Project and an assignment of rents and leases. Interest accrues on the unpaid balance at 1% simple. The note is payable in annual installments of an amount equal to 100% <i>Restricted Cash Surplus</i> as defined in the loan agreement after payment of the second mortgage. Principal and interest are due October 2035. Accrued interest at September 30, 2010 and 2009 was \$8,584 and \$6,826, respectively.</p>	170,300	170,300
<i>Washington Columbia II Limited Partnership</i>		
<p>The Partnership has a mortgage note payable to Housing and Healthcare Finance LLC in the original amount of \$5,135,800, secured by the Project and an assignment of rents and leases. The note is payable in monthly installments of \$30,792, which includes interest at 6%. Final payment is due March 1, 2039. Accrued interest at September 30, 2010 and 2009 was \$25,444 and \$25,444, respectively.</p>	5,039,754	5,104,750
<p>The Partnership has a second mortgage note payable to HUD in the original amount of \$3,744,051, secured by the Project and an assignment of rents and leases. Interest accrues on the unpaid balance at 2.5% simple. The note is payable in annual installments of an amount equal to 100% of <i>Restricted Cash Surplus</i>, as defined in the loan agreement. Final payment is due March 1, 2039. Accrued interest at September 30, 2010 and 2009 was \$148,759 and \$0, respectively.</p>	3,744,051	3,744,051
<p>The Partnership has a third mortgage note payable to HUD in the original amount of \$2,099,712, secured by the Project and an assignment of rents and leases. Interest accrues on the unpaid balance at 2.5% simple. The note is payable in annual installments of an amount equal to 100% <i>Restricted Cash Surplus</i> as defined in the loan agreement after payment of the second mortgage. Final payment is due October 2035. Accrued interest at September 30, 2010 and 2009 was \$83,427 and \$0, respectively.</p>	2,085,267	2,099,712
Total	33,622,098	34,263,336
Less current portion	5,800,033	3,858,286
Notes payable, net of current portion	<u>\$ 27,822,065</u>	<u>\$ 30,405,050</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**8. Notes Payable-Continued**

Principal reduction for the next five years and thereafter is estimated as follows:

2011	\$	5,800,033
2012		679,040
2013		432,867
2014		219,240
2015		232,217
Thereafter		<u>26,258,701</u>
Total	\$	<u><u>33,622,098</u></u>

**9. Funds Held in Trust**

CSNDC acts as a fiscal agent for several neighborhood groups. The total cash held for these groups is in separate bank accounts. These balances are combined and presented as offsetting assets and liabilities in the financial statements. The transactions of these neighborhood groups are not included in the financial statements or transactions of CSNDC.

GLA, OTS, WCA, WC2A and LCLP have a policy to collect security deposits of up to one month's rent from the tenants. The security deposits can be used to pay for damages caused by the tenant or used against unpaid receivables. The total cash collected for security deposits as of September 30, 2010 and 2009 is included in funds held in trust.

Funds held in trust also include unexpended proceeds of loans to homeowners. CSHS controls the funds until they are disbursed for approved home improvements by the homeowners.

**10. Permanently Restricted Net Assets**

Permanently restricted net assets consist of grants received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund from 1996 through 2010:

	2010	2009
Initial grant - current held in cash	\$ 228,112	\$ 228,112
Grant funds used for real estate development	961,992	796,992
Grant funds received for the purpose of making mortgage loans to qualified homeowners	<u>375,000</u>	<u>375,000</u>
Total permanently restricted net assets	<u><u>\$ 1,565,104</u></u>	<u><u>\$ 1,400,104</u></u>

During fiscal year 2009 NeighborWorks America released permanent restrictions on capital grant funds of \$570,584.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**11. Commercial Leases**

Future minimum lease payments under operating leases from tenants, not including CSNDC are as follows: \$130,023 in 2011 \$119,413 in 2012 \$87,583 in 2013 and \$60,289 in 2014.

**12. Board Designated Net Assets - Unrestricted**

The Board of Directors of CSNDC has designated a portion of the Organization's unrestricted net assets as a Development Fund to be used for development costs of prospective projects. The Development Fund had the following balance at September 30, 2010 and 2009:

	2010	2009
Advanced to subsidiaries to finance development costs	\$ 500,000	\$ 500,000
Unadvanced funds	<u>-</u>	<u>-</u>
Total	<u>\$ 500,000</u>	<u>\$ 500,000</u>

**13. Income Taxes**

CSNDC's for-profit subsidiaries had provisions for income taxes for the year ended September 30, 2010 and 2009 consisting of the following:

	2010	2009
State tax expense	\$ 7,296	\$ 18,185
Federal tax expense	<u>-</u>	<u>-</u>
Total	<u>\$ 7,296</u>	<u>\$ 18,185</u>

As of September 30, 2010, CSNDC's for-profit subsidiaries had net operating loss carryforwards totaling approximately \$866,024 and tax credit carryforwards totaling approximately \$102,000. These net operating loss and tax credit carryforwards will expire at various times between 2009 and 2026. It is unclear if CSNDC will realize value from these credits and loss carryforwards; accordingly a related tax deferred asset has not been recorded.

**14. Concentrations**

CSNDC has a concentration of credit risk represented by cash balances in certain large commercial banks in amounts which occasionally exceed current Federal Deposit Insurance Corporation (FDIC) limits. CSNDC does not believe it is exposed to significant risk related to uninsured deposits as it periodically reviews the credit standings of the related institutions.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**14. Concentrations – Continued**

CSNDC receives a substantial amount of its support and revenue from federal, state and local contracts and grants and from major public support organizations. A significant reduction in the level of any of this support and revenue, if this were to occur, might have an adverse effect on CSNDC's programs and activities.

CSNDC's loan portfolio and real estate holdings are concentrated in the affordable housing real estate market within the Codman Square neighborhood of Dorchester, Massachusetts. Although the loans are collateralized by mortgage interests, a downturn in this market could negatively impact CSNDC's ability to collect existing loans and potentially liquidate foreclosed assets. Based on this concentration it is also reasonably possible that the CSNDC's loan loss reserve estimate would change and the realizable value of its real estate holdings would decrease.

**15. Commitments**

*Loan Commitments*

CSNDC has received various financing commitments to fund the construction costs related to renovations at several of its projects. As of September 30, 2010 the following commitments were received:

<i>Lender</i>	<i>Commitment</i>	<i>Amount</i>	
		<i>Received</i>	<i>Outstanding</i>
Community Economic Development Assistance Corporation	\$ 607,500	\$ 179,129	\$ 428,371
City of Boston Department of Neighborhood Development	281,172	121,197	159,975
Massachusetts Housing Partnership	847,000	-	847,000
Massachusetts Housing Investment Corporation	1,600,000	741,000	859,000
Massachusetts Housing Finance Agency	50,000	36,361	13,639
Local Initiatives Support Corporation	1,229,500	621,277	608,223
Total	<u>\$ 4,615,172</u>	<u>\$ 1,698,964</u>	<u>\$ 2,916,208</u>

*Purchase Commitments*

During 2010, TSLLC entered into a purchase and sale agreement to purchase three parcels of land. The amount of the commitment was \$600,000 and as of September 30, 2010 TSLLC had paid a deposit of \$60,000.

During 2010, TSLLC entered into a purchase and sale agreement to purchase a parcel of land. The amount of the commitment was \$425,000 and as of September 30, 2010 TSLLC had paid a deposit of \$5,000.

During 2010, CSNDC entered into a purchase and sale agreement to purchase a parcel and attached structure. The amount of the commitment was \$687,500 and as of September 30, 2010 CSNDC had paid a deposit of \$10,000.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**15. Commitments – Continued**

During 2010 TSLLC entered into an architectural contract for the development of the site. The amount of the contract was \$82,000, as of September 30, 2010 \$41,534 had been incurred under the contract.

During 2010 CSNDC entered into a consulting contract to obtain Historical Tax Credits for development of a new project, Syria Temple. The amount of the contract was \$24,000 and as of September 30, 2010 \$1,000 had been incurred.

**16. Real Estate held for Future Use**

CSNDC, FCP, TSLLC and 157 Realty Trust hold title to properties in the Codman Square area for the purpose of future sale or development. Management expects to recover the costs of the properties upon disposition.

**17. Guarantees**

CSNDC is contingently liable as the guarantor on the following notes payable:

<u>Borrower</u>	<u>Lender</u>	<u>Balance at September 30, 2010</u>
526 Park Street, Inc.	CEDAC	\$ 300,000
Talbot Bernard LLC	City of Boston	\$ 1,350,000
NDC Holdings	Citizens Bank	\$ 842,287

In addition, CSNDC has made an operating guarantee against recapture of low income housing tax credits generated by Olmstead Green Rental I LLC, owner of an affordable housing development. The maximum due under the guarantee is \$300,000 and the guarantee expires in 2012.

Also, CSNDC has made an operating guarantee against recapture of low income housing tax credits generated by Olmstead Green Rental II LLC, owner of an affordable housing development. The maximum due under the guarantee is \$1,330,000. The guarantee is effective for the fourth and fifth years of operations of the development, 2013 and 2014.

CSNDC' wholly owned subsidiary is the managing member of the above LLCs and at September 30, 2010, management believes the risk of payments under the above guarantees is unlikely.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2010

**18. *Contingent Liability***

CSR's, WCA's, WCA II's and GLA's loan agreements described in Note 8, contain provisions that require adherence to eligibility requirements of those to whom dwelling units are sold or rented and affordability requirements limiting sales prices and monthly rent charges. In the event of noncompliance, those lenders have the discretion to demand repayment of the respective loans.

**19. *Contribution Receivable***

During 2009, CSNDC received a conditional promise to give totaling \$120,000 which will be received in incremental payments based on the satisfaction of certain criteria set forth by the donor. Through September 30, 2010, \$40,000 had been received. Since there is no unconditional promise for the donor to grant future income to CSNDC, no accrual of such promises has been made in the financial statements as of September 30, 2010.

**20. *Unusual Items***

During fiscal year 2009, CSNDC was assigned 100% of the limited partnership interests in Washington Columbia Limited Partnership, which owns a 200 unit affordable housing development, Washington Columbia II Limited Partnership, which owns a 200 unit affordable housing development and Lithgow Residential Limited Partnership. The assignments were made by the same entity that was the former limited partner in the partnerships. After the assignment CSNDC has a 100% ownership interest in the partnerships. At the time of assignment the limited partnership interests in the partnerships were independently appraised. The amount of the contribution income recorded equaled the appraised values of the partnership interests. Given the unusual and non-recurring nature of these transactions they have been reflected as an unusual item of income in the statement of activities.

During fiscal year 2009, all of the secured debt of Washington Columbia II Limited Partnership was refinanced. As a condition of the transaction a residual receipts escrow account in the amount of \$2,964,357 was required to be relinquished to HUD. Given the unusual and non-recurring nature of this transaction it has been reflected as an unusual item of expense in the statement of activities.

**21. *Consolidation***

For financial reporting purposes, the financial position and activities of CSNDC and its twenty-seven wholly owned entities have been consolidated and all significant intercompany accounts and transactions have been eliminated.

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2010

**21. Consolidation – Continued**

A summary of this consolidation is as follows:

	<i>CSNDC</i>	<i>Subsidiaries</i>	<i>Eliminations</i>	<i>Total</i>
Assets	<u>\$ 26,525,266</u>	<u>\$ 52,567,510</u>	<u>\$ (20,017,600)</u>	<u>\$ 59,075,176</u>
Liabilities	\$ 1,133,000	\$ 42,841,511	\$ (4,417,858)	\$ 39,556,653
Net assets / equity	<u>25,392,266</u>	<u>9,725,999</u>	<u>(15,599,742)</u>	<u>19,518,523</u>
Total liabilities and net assets	<u>\$ 26,525,266</u>	<u>\$ 52,567,510</u>	<u>\$ (20,017,600)</u>	<u>\$ 59,075,176</u>
Revenues	\$ 3,089,412	\$ 6,161,937	\$ (335,010)	\$ 8,916,339
Expenses	<u>1,481,014</u>	<u>6,917,458</u>	<u>(254,273)</u>	<u>8,144,199</u>
Change in net assets / retained earnings	<u>\$ 1,608,398</u>	<u>\$ (755,521)</u>	<u>\$ (80,737)</u>	<u>\$ 772,140</u>

**22. Subsequent Events**

CSNDC has evaluated subsequent events through February 25, 2011, which is the date the financial statements were available to be issued.

## **SUPPLEMENTAL INFORMATION**

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Schedule of Financial Position – Neighborhood Reinvestment Capital Fund  
September 30, 2010

*Assets*

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<i>Assets</i>	
Cash and cash equivalents	\$ 228,112
Buildings and improvements	516,654
Mortgage loans receivable	156,822
Due from related parties	199,214
Notes receivable from related parties	<u>464,302</u>
Total Assets	<u><u>\$ 1,565,104</u></u>

*Liabilities and Net Assets*

---

Net assets	<u>\$ 1,565,104</u>
Total liabilities and net assets	<u><u>\$ 1,565,104</u></u>

Schedule of Activities – Neighborhood Reinvestment Capital Fund  
For the Year Ended September 30, 2010

**Revenue and Support**

Capital Grant - Neighborhood reinvestment	<u>\$ 165,000</u>
Change in net assets	165,000
Net assets, beginning of year	<u>1,400,104</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,565,104</u></u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Financial Position**  
**September 30, 2010**

*Assets*

<i>Current Assets</i>	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
Cash and cash equivalents	\$ 2,082,824	\$ 833,955	\$ 843,226	\$ -	\$ 3,760,005
Funds held in trust	10,063	8,281	165,492	-	183,836
Accounts receivable:					
Grants and contracts	507,035	-	-	-	507,035
Other	155,407	6,599	50,685	-	212,691
Deposits	10,000	65,000	-	-	75,000
Assets held for sale	-	597,399	-	-	597,399
Mortgage loans receivable - net of reserves	-	9,650	-	-	9,650
Prepaid expenses	<u>15,515</u>	<u>562</u>	<u>70,729</u>	<u>-</u>	<u>86,806</u>
Total current assets	<u>2,780,844</u>	<u>1,521,446</u>	<u>1,130,132</u>	<u>-</u>	<u>5,432,422</u>
<i>Property and Equipment</i>					
Land	-	158,495	1,227,764	-	1,386,259
Buildings and improvements	152,999	500,000	54,924,102	-	55,577,101
Office equipment and furniture	<u>91,670</u>	<u>-</u>	<u>2,759,559</u>	<u>-</u>	<u>2,851,229</u>
	244,669	658,495	58,911,425	-	59,814,589
Less accumulated depreciation	(136,844)	-	(21,540,995)	-	(21,677,839)
Construction in progress	<u>-</u>	<u>2,041,817</u>	<u>-</u>	<u>-</u>	<u>2,041,817</u>
Net property and equipment	<u>107,825</u>	<u>2,700,312</u>	<u>37,370,430</u>	<u>-</u>	<u>40,178,567</u>
<i>Noncurrent Assets</i>					
Cash - other	-	432,211	5,374,489	-	5,806,700
Real estate held for future use	58,924	-	3,294,541	-	3,353,465
Due from related parties	5,306,994	-	154,230	(5,254,114)	207,110
Capitalized fees	-	-	575,250	-	575,250
Deferred tax asset	-	-	14,469	-	14,469
Investment in subsidiaries	14,763,486	-	-	(14,763,486)	-
Notes receivable and accrued interest - related parties	<u>3,507,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,507,193</u>
Total noncurrent assets	<u>23,636,597</u>	<u>432,211</u>	<u>9,412,979</u>	<u>(20,017,600)</u>	<u>13,464,187</u>
Total assets	<u>\$ 26,525,266</u>	<u>\$ 4,653,969</u>	<u>\$ 47,913,541</u>	<u>\$ (20,017,600)</u>	<u>\$ 59,075,176</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Financial Position - *continued***  
**September 30, 2010**

	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
<i>Current Liabilities</i>					
Accounts payable	\$ 36,328	\$ 276,765	\$ 101,111	\$ 10,349	\$ 424,553
Current portion of notes payable	757,154	3,041,009	2,001,870	-	5,800,033
Accrued expenses	66,040	19,750	157,239	-	243,029
Accrued interest	-	85,102	1,142,392	-	1,227,494
Prepaid rent	-	-	90,120	-	90,120
Deferred management fee	-	-	26,930	-	26,930
Due to related parties	181,681	614,013	3,826,050	(4,428,207)	193,537
Funds held in trust	12,475	7,163	159,061	-	178,699
	<u>1,053,678</u>	<u>4,043,802</u>	<u>7,504,773</u>	<u>(4,417,858)</u>	<u>8,184,395</u>
<i>Noncurrent liabilities</i>					
Notes payable, net of current portion	79,322	631,000	27,111,743	-	27,822,065
Accrued interest	-	18,995	3,435,045	-	3,454,040
Losses in excess of investments in partnerships	-	96,153	-	-	96,153
	<u>79,322</u>	<u>746,148</u>	<u>30,546,788</u>	<u>-</u>	<u>31,372,258</u>
Total liabilities	<u>1,133,000</u>	<u>4,789,950</u>	<u>38,051,561</u>	<u>(4,417,858)</u>	<u>39,556,653</u>
<i>Net Assets</i>					
Owners' equity	-	(135,981)	9,861,980	(9,725,999)	-
Unrestricted	23,827,162	-	-	(5,873,743)	17,953,419
Permanently restricted	1,565,104	-	-	-	1,565,104
	<u>25,392,266</u>	<u>(135,981)</u>	<u>9,861,980</u>	<u>(15,599,742)</u>	<u>19,518,523</u>
Total net assets	<u>25,392,266</u>	<u>(135,981)</u>	<u>9,861,980</u>	<u>(15,599,742)</u>	<u>19,518,523</u>
Total liabilities and net assets	<u>\$ 26,525,266</u>	<u>\$ 4,653,969</u>	<u>\$ 47,913,541</u>	<u>\$ (20,017,600)</u>	<u>\$ 59,075,176</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Revenue and Expenses**  
**September 30, 2010**

	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
<b>Revenue and Support</b>					
Contributions:					
Neighborhood reinvestment	\$ 255,250	\$ -	\$ -	\$ -	\$ 255,250
HomeFree USA grant	32,509	-	-	-	32,509
Other	1,109,990	-	-	-	1,109,990
Government grants and contracts	226,907	-	-	-	226,907
Interest on notes receivable - related parties	187,314	-	-	(30,275)	157,039
Resident services fees - related parties	117,100	-	-	(48,900)	68,200
Management fees - related parties	508,362	-	-	(140,100)	368,262
Staff cost reimbursements - related parties	124,792	-	-	(42,000)	82,792
Developer fees - related parties	449,957	-	-	-	449,957
Interest income	31,631	16,213	36,085	-	83,929
Net loss on investments in partnerships	-	(44,577)	-	-	(44,577)
Rental income	-	-	6,088,515	(73,735)	6,014,780
Loan fees	-	1,670	-	-	1,670
Income tax benefit	-	-	6,984	-	6,984
Other	45,600	2,114	54,933	-	102,647
	<u>3,089,412</u>	<u>(24,580)</u>	<u>6,186,517</u>	<u>(335,010)</u>	<u>8,916,339</u>
<b>Expenses</b>					
Program services					
Real estate development	385,805	5,837	-	(20,649)	370,993
Resident services	319,455	-	-	(17,097)	302,358
Neighborhood stabilization	295,759	76,909	-	(57,829)	314,839
Asset management	176,685	13,272	6,821,440	(142,464)	6,868,933
Economic development	65,165	-	-	(3,488)	61,677
	<u>1,242,869</u>	<u>96,018</u>	<u>6,821,440</u>	<u>(241,527)</u>	<u>7,918,800</u>
Supporting services					
General administrative	217,858	-	-	(12,746)	205,112
Fundraising	20,287	-	-	-	20,287
	<u>238,145</u>	<u>0</u>	<u>0</u>	<u>(12,746)</u>	<u>225,399</u>
	<u>1,481,014</u>	<u>96,018</u>	<u>6,821,440</u>	<u>(254,273)</u>	<u>8,144,199</u>
Excess of revenue over expenses from operations	<u>\$ 1,608,398</u>	<u>\$ (120,598)</u>	<u>\$ (634,923)</u>	<u>\$ (80,737)</u>	<u>\$ 772,140</u>

**SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS**

**Codman Square Neighborhood Development Corporation**  
Schedule of Expenditures of Federal Awards  
For The Year Ended September 30, 2010

<i>Federal Grantor (Pass-Through Grantor) Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
<b><i>U.S. Department of Health and Human Services</i></b>			
Community Services Block Grant*	93.570	-	\$ <u>174,174</u>
Total U.S. Department of Health and Human Services			<u>174,174</u>
<b><i>U.S. Department of Housing and Urban Development</i></b>			
Pass through Department of Neighborhood Development			
Community Development Block Grant	14.218	-	102,482
HOME Investment Partnerships Program Grant	14.239	-	14,777
Pass through HomeFree - USA			
HUD Housing Counseling Funds	14.316	-	<u>11,250</u>
Total U.S. Department of Housing and Urban Development			<u>128,509</u>
<b><i>U.S. Department of Treasury</i></b>			
Pass through NeighborWorks America			
NeighborWorks*	21.003	-	<u>221,457</u>
Total U.S. Department of Treasury			<u>221,457</u>
Total Federal Financial Assistance			<u>\$ 524,140</u>

\* indicates a major Federal Program

**Codman Square Neighborhood Development Corporation**  
Notes to Schedule of Expenditures of Federal Awards  
September 30, 2010

**1. *Summary of Significant Accounting Policies***

The accompanying *Schedule of Expenditures of Federal Awards* (Schedule) includes the accounts of the federal awards of Codman Square Neighborhood Development Corporation and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*. Therefore, some of the amounts presented in this Schedule may differ from the amounts presented in or used in the preparation of the basic financial statements.

**REPORT ON COMPLIANCE AND  
INTERNAL CONTROL IN ACCORDANCE  
WITH  
GOVERNMENT AUDITING STANDARDS**

# **Daniel Dennis & Company LLP**

*Certified Public Accountants*

The Board of Directors

**Codman Square Neighborhood Development Corporation**

*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*

We have audited the financial statements of Codman Square Neighborhood Development Corporation (CSNDC) (a nonprofit organization) as of and for the year ended September 30, 2010, and have issued our report thereon dated February 25, 2011. We conducted our audit 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.

## *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered CSNDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSNDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CSNDC'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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether CSNDC'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*.

This report is intended solely for the information and use of management, board of directors, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Daniel Dennis & Company LLP*

*February 25, 2011*

**REPORT ON COMPLIANCE AND  
INTERNAL CONTROL IN ACCORDANCE  
WITH  
OMB CIRCULAR A-133**

# **Daniel Dennis & Company LLP**

*Certified Public Accountants*

The Board of Directors  
**Codman Square Neighborhood Development Corporation**

*Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*

*Compliance*

We have audited Codman Square Neighborhood Development Corporation (CSNDC) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CSNDC's major federal programs for the year ended September 30, 2010. CSNDC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CSNDC's management. Our responsibility is to express an opinion on CSNDC's compliance based on our audit.

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 CSNDC'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. Our audit does not provide a legal determination of CSNDC's compliance with those requirements.

In our opinion, CSNDC 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 September 30, 2010.

### *Internal Control Over Compliance*

Management of CSNDC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CSNDC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 CSNDC'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Daniel Dennis & Company LLP*

*February 25, 2011*

**SCHEDULE OF  
FINDINGS AND QUESTIONED COSTS**

**Codman Square Neighborhood Development Corporation**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2010

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of Codman Square Neighborhood Development Corporation.
2. No significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Codman Square Neighborhood Development Corporation were disclosed during the audit.
4. No significant deficiencies were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Codman Square Neighborhood Development Corporation expresses an unqualified opinion on the major programs.
6. Audit findings relative to the major federal award programs for Codman Square Neighborhood Development Corporation are reported in Part C. of this Schedule.
7. The programs tested as major programs were:
  - Neighbor Works (CFDA #21.103)
  - Community Services Block Grant (CFDA #93.570)
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Codman Square Neighborhood Development Corporation did not qualify as a low-risk auditee.

**B. Findings - Financial Statements Audit**

NONE

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

NONE

**Summary of Prior Audit findings**

There were no prior audits of Codman Square Neighborhood Development Corporation's Schedule of Expenditures of Federal Awards.