

Codman Square Neighborhood Development Corporation And Subsidiaries

Financial Statements
and
Auditors' Report

September 30, 2011 with Comparative Totals for 2010



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**Codman Square Neighborhood Development Corporation
And Subsidiaries**

Contents

	<i>Page</i>
Auditors' Report	1
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplemental Information	32
Consolidating Schedules	34
Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Federal Awards	39
Reports on Compliance and on Internal Control	41
Schedule of Findings and Questioned Costs	47

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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, 2011 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, 2010 and in our report dated February 25, 2011, 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, 2011, 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 28, 2012, on our consideration of the 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 should be considered in 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 28, 2012

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Financial Position
September 30, 2011
With Comparative Totals for 2010

<i>Assets</i>	<i>2011</i>	<i>2010</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,275,600	\$ 3,212,796
Funds held in trust	254,608	183,836
Accounts receivable:		
Grants and contracts	797,494	507,035
Other - net of reserves	274,299	212,691
Restricted cash	589,600	65,323
Deposits	5,000	75,000
Assets held for sale	-	597,399
Short-term investments	491,970	481,886
Mortgage loans receivable - net of reserves	1,285	9,650
Prepaid expenses	<u>82,038</u>	<u>86,806</u>
Total current assets	<u>5,771,894</u>	<u>5,432,422</u>
<i>Property and Equipment</i>		
Land	2,171,059	1,386,259
Buildings and improvements	56,350,313	55,577,101
Office equipment and furniture	<u>3,032,556</u>	<u>2,851,229</u>
	61,553,928	59,814,589
Less accumulated depreciation	(23,375,333)	(21,677,839)
Construction in progress	<u>3,343,788</u>	<u>2,041,817</u>
Net property and equipment	<u>41,522,383</u>	<u>40,178,567</u>
<i>Noncurrent Assets</i>		
Cash - other	5,207,936	5,806,700
Real estate held for future use	1,873,827	3,353,465
Due from related parties	724,189	287,030
Capitalized fees, net	562,226	575,250
Deferred tax asset	14,469	14,469
Notes receivable and accrued interest - related parties - net of reserves	<u>4,214,841</u>	<u>3,427,872</u>
Total noncurrent assets	<u>12,597,488</u>	<u>13,464,786</u>
Total assets	<u>\$ 59,891,765</u>	<u>\$ 59,075,775</u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Financial Position - *Continued*
September 30, 2011
With Comparative Totals for 2010

Liabilities and Net Assets

	<i>2011</i>	<i>2010</i>
<i>Current Liabilities</i>		
Accounts payable	\$ 1,008,162	\$ 425,152
Current portion of notes payable	2,282,724	5,800,033
Accrued expenses	250,499	243,029
Accrued interest	12,397	1,227,494
Prepaid rent	76,464	90,120
Deferred management fee	26,929	26,930
Due to related parties	324,879	193,537
Funds held in trust	<u>247,066</u>	<u>178,699</u>
Total current liabilities	<u>4,229,120</u>	<u>8,184,994</u>
<i>Noncurrent liabilities</i>		
Notes payable, net of current portion	31,151,811	27,822,065
Accrued interest	3,601,288	3,454,040
Losses in excess of investments in partnerships	<u>63,337</u>	<u>96,153</u>
Total noncurrent liabilities	<u>34,816,436</u>	<u>31,372,258</u>
Total liabilities	<u>39,045,556</u>	<u>39,557,252</u>
<i>Net Assets</i>		
Unrestricted	18,706,605	17,953,419
Temporarily restricted	176,510	-
Permanently restricted	<u>1,963,094</u>	<u>1,565,104</u>
Total net assets	<u>20,846,209</u>	<u>19,518,523</u>
Total liabilities and net assets	<u><u>\$ 59,891,765</u></u>	<u><u>\$ 59,075,775</u></u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries

Consolidated Statement of Activities

For the Year Ended September 30, 2011

With Summarized Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenue and Support					
Contributions:					
Neighborhood reinvestment	\$ 113,000	\$ -	\$ 574,500	\$ 687,500	\$ 255,250
HomeFree USA grant	19,077	-	-	19,077	32,509
Other	1,023,892	-	-	1,023,892	1,109,990
Government grants and contracts	522,145	-	-	522,145	226,907
Interest on notes receivable - related parties	193,514	-	-	193,514	157,039
Resident services fees - related parties	72,167	-	-	72,167	68,200
Management fees - related parties	49,024	-	-	49,024	368,262
Staff cost reimbursements - related parties	183,578	-	-	183,578	82,792
Developer fees - related parties	124,767	-	-	124,767	449,957
Interest income	53,416	-	-	53,416	83,929
Net gain (loss) on investments in partnerships	27,156	-	-	27,156	(44,577)
Gain on sale of real-estate	71,328	-	-	71,328	-
Rental income	6,474,336	-	-	6,474,336	6,014,780
Insurance proceeds	91,952	-	-	91,952	-
Forgiveness of debt income	470,668	-	-	470,668	-
Other	147,607	-	-	147,607	111,301
Net assets released from restriction	-	176,510	(176,510)	-	-
Total revenue and support	<u>9,637,627</u>	<u>176,510</u>	<u>397,990</u>	<u>10,212,127</u>	<u>8,916,339</u>
Expenses					
Program services					
Real estate development	642,053	-	-	642,053	370,993
Resident services	428,079	-	-	428,079	302,358
Neighborhood stabilization	372,441	-	-	372,441	314,839
Asset management	7,092,433	-	-	7,092,433	6,868,933
Economic development	66,617	-	-	66,617	61,677
Total program services	<u>8,601,623</u>	<u>-</u>	<u>-</u>	<u>8,601,623</u>	<u>7,918,800</u>
Supporting services					
General administrative	245,428	-	-	245,428	205,112
Fundraising	27,269	-	-	27,269	20,287
Total supporting services	<u>272,697</u>	<u>-</u>	<u>-</u>	<u>272,697</u>	<u>225,399</u>
Total expenses	<u>8,874,320</u>	<u>-</u>	<u>-</u>	<u>8,874,320</u>	<u>8,144,199</u>
Change in net assets	763,307	176,510	397,990	1,337,807	772,140
Net assets, beginning of year	<u>17,953,419</u>	<u>-</u>	<u>1,565,104</u>	<u>19,518,523</u>	<u>18,748,756</u>
Affects of unconsolidated subsidiaries	(10,121)	-	-	(10,121)	(2,373)
Net assets, beginning of year - restated	<u>17,943,298</u>	<u>-</u>	<u>1,565,104</u>	<u>19,508,402</u>	<u>18,746,383</u>
Net assets, end of year	<u>\$ 18,706,605</u>	<u>\$ 176,510</u>	<u>\$ 1,963,094</u>	<u>\$ 20,846,209</u>	<u>\$ 19,518,523</u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2011
With Summarized Comparative Totals for 2010

	<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>2011 Total</i>	<i>2010 Total</i>
Salaries	\$ 273,857	\$ 252,996	\$ 206,978	\$ 888,271	\$ 39,371	\$ 1,661,473	\$ 145,049	\$ 16,117	\$ 1,822,639	\$ 1,494,489
Employee benefits	39,044	36,070	29,509	100,642	5,613	210,878	20,680	2,298	233,856	278,018
Payroll taxes	24,863	22,969	18,791	66,965	3,574	137,162	13,169	1,463	151,794	74,846
Total salaries and related expenses	<u>337,764</u>	<u>312,035</u>	<u>255,278</u>	<u>1,055,878</u>	<u>48,558</u>	<u>2,009,513</u>	<u>178,898</u>	<u>19,878</u>	<u>2,208,289</u>	<u>1,847,353</u>
Professional fees	13,279	7,186	18,279	175,149	1,118	215,011	4,120	458	219,589	193,357
Consulting fees	14,255	13,169	10,774	12,729	2,049	52,976	7,550	839	61,365	65,680
Program expenses	8,184	7,560	6,185	2,637	1,177	25,743	4,334	482	30,559	36,704
Meals	1,803	1,666	1,363	581	259	5,672	955	106	6,733	4,910
Travel, conferences and meetings	3,117	2,879	2,356	1,603	448	10,403	1,651	183	12,237	11,244
Staff training	3,238	2,991	2,447	1,537	465	10,678	1,714	191	12,583	12,336
Telephone	3,968	3,666	2,999	41,856	570	53,059	2,101	234	55,394	53,867
Utilities	1,951	1,803	1,475	974,550	281	980,060	1,033	115	981,208	867,534
Postage and delivery	1,006	930	761	5,072	145	7,914	533	59	8,506	9,100
Subscriptions and memberships	2,002	1,849	1,513	645	288	6,297	1,060	118	7,475	7,886
Advertising	1,564	1,445	1,182	2,599	225	7,015	829	92	7,936	5,977
Office expense	10,638	9,828	8,040	43,919	1,529	73,954	5,635	626	80,215	71,973
Community benefit expense	2,323	2,146	1,756	749	334	7,308	1,230	137	8,675	10,140
Special events	8,571	7,918	6,478	2,762	1,232	26,961	4,540	505	32,006	11,548
Insurance	2,396	2,213	1,811	121,429	344	128,193	1,269	141	129,603	126,366
Temporary personnel	459	424	347	148	66	1,444	243	27	1,714	1,106
Interest expense	193	178	146	1,080,959	28	1,081,504	102	11	1,081,617	1,122,238
Contracted services	-	-	-	689,635	-	689,635	-	-	689,635	803,251
Repairs and maintenance	366	338	277	241,276	53	242,310	194	22	242,526	196,296
Real estate taxes	-	-	-	547,746	-	547,746	-	-	547,746	483,955
Taxes and fees	787	205	624	5,543	32	7,191	117	13	7,321	86,611
Bad debt	41,343	39,010	38,148	29,057	6,072	153,630	22,366	2,483	178,479	36,092
Depreciation and amortization	3,451	3,188	2,608	1,803,818	496	1,813,561	1,828	203	1,815,592	1,663,528
Loss on investment in real-estate	170,664	-	-	-	-	170,664	-	-	170,664	-
Management fees	-	-	-	165,048	-	165,048	-	-	165,048	341,725
Miscellaneous	8,731	5,452	7,594	85,508	848	108,133	3,126	346	111,605	73,422
Total expenses	<u>\$ 642,053</u>	<u>\$ 428,079</u>	<u>\$ 372,441</u>	<u>\$ 7,092,433</u>	<u>\$ 66,617</u>	<u>\$ 8,601,623</u>	<u>\$ 245,428</u>	<u>\$ 27,269</u>	<u>\$ 8,874,320</u>	<u>\$ 8,144,199</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, 2011
With Comparative Totals for 2010

	2011	2010
<i>Cash Flows From Operating Activities:</i>		
Change in net assets	\$ 1,337,807	\$ 772,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,815,592	1,663,528
Bad debt expense	178,479	36,092
Debt forgiveness income	(470,668)	-
Gain on sale of real-estate	(174,710)	-
Accrued interest income	(193,514)	(157,039)
Affects of unconsolidated subsidiary	(10,121)	(5,754)
Net (gain)/loss on investments in partnerships	(27,156)	44,577
(Increase)/decrease in operating assets:		
Funds held in trust	(67,232)	7,193
Accounts receivable	(312,356)	28,192
Deposits	70,000	(72,500)
Deferred tax asset	-	(6,984)
Grant and contracts receivable	(135,237)	(336,135)
Mortgage loans receivable	(879)	1,673
Assets held for sale	422,689	(341,024)
Prepaid expenses	(473)	8,758
Increase/(decrease) in operating liabilities:		
Accounts payable	798,253	146,720
Accrued expenses	176,032	531,078
Deferred revenue	(3,036)	25,225
Funds held in trust	(12,620)	(3,848)
Net cash provided by operating activities	3,390,850	2,341,892
<i>Cash flows from investing activities:</i>		
Decrease/(increase) in cash - other	100,848	(1,417,994)
(Decrease)/increase in amounts due to related parties	(762,739)	183,267
Decrease in related party notes receivable	704,507	-
Payments for capitalized costs	(2,518,206)	(650,921)
Payments for property and equipment	(1,736,224)	(1,290,629)
Net cash used by investing activities	(4,211,814)	(3,176,277)
<i>Cash flows from financing activities:</i>		
Proceeds from notes payable	2,488,940	478,612
Repayment of notes payable	(1,605,172)	(523,345)
Net cash proved by (used by) financing activities	883,768	(44,733)
Net change in cash	62,804	(879,118)
Cash, beginning of year	3,212,796	4,091,914
Cash, at end of year	\$ 3,275,600	\$ 3,212,796
<i>Supplementary Disclosure of Cash Flow Information</i>		
Cash paid during the year for interest	\$ 1,002,929	\$ 778,843
Cash paid during the year for income taxes	\$ 8,208	\$ 12,492

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2011

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, 2011

2. *Summary of Significant Account Policies*

Basis of Accounting:

The financial statements of CSNDC have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. 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-nine 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 Residential 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; Codman Community Development, Inc (CCDI), 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, 2011

2. *Summary of Significant Account Policies – Continued*

Principals of Consolidation – Continued

Washington Columbia Apartments Limited Partnership (WCALP) which was organized to lease residential property; Washington Columbia Apartments II Limited Partnership (WCAII) which was organized to lease residential property, Talbot Station LLC (TS LLC) organized to acquire and develop residential and commercial property; Whittier LLC (WLLC) organized to acquire and develop residential property; 241 Talbot Corporation (241Corp), which owns 1% of 241 Talbot LLC and 157 Washington Street Managing Member (151WS), which owns 1% of 157 Washington Street AB&W LLC.

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-nine subsidiaries are for-profit corporations, limited liability companies or limited partnerships except for CCDI which is a nonprofit organization.

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

Financial Statement Presentation

CSNDC 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

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 Corporation (NRC) Revolving Loan and Capital Projects Fund 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 when unconditional pledges are received. 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.

Reclassifications

Certain reclassifications have been made to the 2010 amounts to conform to the 2011 presentation.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

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 *consolidated 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, 2011 and 2010 capitalized interest was \$104,683 and 227,111, respectively.

Investments in Partnerships

The Subsidiaries' investments in each of the partnerships are accounted for using the equity method.

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.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

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, 2011, 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 calculates 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, 2011, CSNDC believes that it has no uncertain tax positions within its open tax returns and within any of its subsidiaries' open tax returns. The 2008 through 2010 tax years remain subject to examination by Federal and state authorities.

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. In most cases 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, 2011

2. *Summary of Significant Account Policies – Continued*

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CSNDC's financial statements for the year ended September 30, 2010, from which the summarized information was derived.

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, 2011 and 2010:

The balance includes a development fee receivable and accrued interest due from Talbot Bernard Housing LLC totaling \$244,292 and \$300,178 for the years ending September 30, 2011 and 2010, 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 \$14,044 and \$15,754 was accrued in fiscal year 2011 and 2010, 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, 2011 and 2010 was \$519,199 and \$448,618, respectively. Interest of \$70,581 and \$67,244 was recognized in fiscal years 2011 and 2010, 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 \$584,799 and \$565,286 at December 31, 2011 and 2010, respectively, using a discount rate of 5%. Interest of \$51,130 and \$20,060 was recognized in fiscal years 2011 and 2010, 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, 2011 and 2010 was \$163,995 and \$106,234, respectively. Principal and interest are due September 2038. Interest of \$57,759 and \$53,981 was recognized in fiscal years 2011 and 2010, respectively.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

3. Related Party Transactions – Continued

The balance also includes a note receivable from 241 Talbot LLC of \$174,765 for the development of residential property. The note bears interest at .25% compounded annually and is secured by a mortgage on the property. The note matures on January 21, 2030 and payments will be required annually to the extent of cash flow as defined in the loan agreement otherwise payment of the principal will be deferred until maturity. The balance of the note as of September 30, 2011 and 2010 was \$129,765.

This balance also includes a note receivable from 157 AB&W LLC of \$695,000 for the development of the residential property. The note bears interest at 4.25% compounded annually and is secured by a mortgage on the property. The note matures on March 11, 2045 and all principal and interest are due upon the maturity. The balance of the note as of September 30, 2011 and 2010 was \$695,000 and \$0, respectively.

The balance includes a development fee receivable due from New Lithgow Residential LLC totaling \$195,891 at September 30, 2011 and 2010, 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 the outstanding balance is due no later than December 31, 2020.

Other Amounts Due From – Related Parties

	<i>2011</i>	<i>2010</i>
241 Talbot LLC	\$ 79,321	\$ 79,321
157 AB&W LLC	437,159	-
New Lithgow Residential LP	154,830	154,830
Talbot Bernard Senior Housing, Inc	125	125
Talbot Bernard Housing, LLC	49,430	49,430
766 Washington LP	2,978	2,978
Girls Latin Corp	346	346
Total	<u>\$ 724,189</u>	<u>\$ 287,030</u>

The following balances are fully reserved at September 30, 2011 and 2010:

Advances to Related Parties with No Stated Interest Rates

	<i>2011</i>	<i>2010</i>
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

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

3. *Related Party Transactions – Continued*

<i>Notes Receivable and Accrued Interest Receivable</i>	<i>2011</i>	<i>2010</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.	\$ 1,158,836	\$ 1,178,837
Due from Codman Square LP for the development of residential property in 1985. The notes bear interest at 12% compounded annually and are secured by a junior mortgages on the property. Principal of \$490,432 and accrued interest were due June 2002. The loan was in default as of September 30, 2010.	\$ 1,916,863	\$ 1,916,863

Income from Related Parties

For the year ended September 30, 2011 and 2010, 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 2011 and 2010 CSNDC earned staff costs reimbursement fee income of \$183,578 and \$82,792, respectively from 241 Talbot Ave LLC.

Developer Fees

During fiscal year 2011 CSNDC earned developer fee income of \$124,767 from 241 Talbot Ave. During fiscal year 2010 CSNDC earned developer fee income of \$254,066 from 241 Talbot Ave and \$195,891 from New Lithgow Residential LLC.

Management Fees

During fiscal year 2011 and 2010 management fees earned by CSNDC were \$49,024 and \$368,262, respectively.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

3. Related Party Transactions – Continued

Resident Service Fees

During fiscal year 2011 and 2010 resident service fees earned by CSNDC were \$72,167 and \$68,200, 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.

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 2011 and 2010:

<i>2011</i>	<u>Total</u>	<u>Reserve</u>	<u>Net</u>
Accounts receivable - other	\$ 464,141	\$ (189,842)	\$ 274,299
Mortgage loans receivable	\$ 41,501	\$ (40,216)	\$ 1,285
Notes receivable - related parties	\$ 8,410,588	\$ (4,195,747)	\$ 4,214,841
<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	\$ 7,535,017	\$ (4,107,145)	\$ 3,427,872

5. Restricted Cash

The Grant funds received from NRC are restricted for development. The balance at September 30, 2011 and 2010 was \$589,600 and \$65,323, respectively. See Note 11 for more information.

6. 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

7. *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%.

8. *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.

The balance consists of the following:

	<i>2011</i>	<i>2010</i>
NDC Holdings, Inc.	\$ 2,151,759	\$ 1,622,337
Codman Square Rehab, Inc.	<u>1,192,029</u>	<u>419,480</u>
Total	<u>\$ 3,343,788</u>	<u>\$ 2,041,817</u>

9. *Notes Payable*

Notes payable consist of the following:

<i>CSNDC</i>	<i>2011</i>	<i>2010</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	153,024
A Site Assessment loan from Massachusetts Development Finance Agency (MDFFA) in the amount of \$80,000 passed through to 241 Talbot LLC. The proceeds were to be used solely for reimbursement of the cost of site remediation of 241 Talbot Ave. During fiscal year 2011, per terms of the original loan agreement the loan turned into a grant in the amount of \$79,322.	-	79,322

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable - Continued

	2011	2010
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
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.	-	50,000
A Predevelopment loan from CEDAC in the amount of \$72,500 passed through to TS LLC. The loan bears interest at 7% per annum. 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. As of September 30, 2011 and 2010 accrued interest was \$5,098 and \$1,059, respectively.	68,172	48,396
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. The loan was in default as of September 30, 2011.	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.	-	75,000

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

9. Notes Payable – Continued

	2011	2010
<p>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, 2011 the loan was in default.</p>	63,640	63,640
<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, 2011 and 2010 was \$42,706 and \$33,555, 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>	30,000	15,000
<p>A Predevelopment loan from CEDAC in the amount of \$196,809, passed through to NDC Holdings. Repayment is due upon closing of construction financing . The loan bears interest at 3% per annum.</p>	120,389	-
<p><i>NDC Holdings</i></p>		
<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. Subsequent to year end the loan was extended from December 31, 2011 to February 28, 2013.</p>	840,291	842,287
<p><i>Girls Latin Academy LLC</i></p>		
<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, 2011 and 2010 the deferred interest was \$666,716 and \$516,049 , respectively.</p>	3,566,596	3,568,445

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

9. Notes Payable-Continued

	2011	2010
<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, 2011 and 2010 the deferred interest was \$2,532,023 and \$2,498,558, respectively.</p>	3,564,276	3,564,276
<p>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.</p>	750,000	750,000
<p>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. As of September 30, 2011 the loan was in default.</p>	80,000	80,000
<p>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, 2011 and 2010 accrued interest was \$80,271 and \$65,343, respectively.</p>	1,427,492	1,427,492
<p><i>Codman Square Rehab, Inc.</i></p>		
<p>The Corporation has a note payable to the Neighborhood Stabilization Fund, providing for a maximum loan amount of \$525,000. The interest rate is 6% per annum and the loan is secured by the 412 Talbot Ave. Project. The loan was repaid during fiscal year 2011. Interest accrued as of September 30, 2010 was \$27,378.</p>	-	515,000
<p>The Corporation has a note payable to the Neighborhood Stabilization Fund, providing for a maximum loan amount of \$320,000. The interest rate is 7% per annum and the loan is secured by the 15 Mallard Avenue Project. The loan was repaid during fiscal year 2011. Interest accrued as of September 30, 2010 was \$15,996.</p>	-	226,000

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable-Continued

	<i>2011</i>	<i>2010</i>
<p>The Corporation has a note payable to the Department of Neighborhood Development, providing for a maximum loan amount of \$206,172. The loan is secured by the 412 Talbot Ave Project. The loan was paid off with the sale proceeds of 412 Talbot Ave.</p>	-	57,557
<p>The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), providing for a maximum loan amount of \$297,554. The interest rate is 6% per annum and the loan is secured by the 59 Spencer Project. Repayment of the loan is due May 31, 2012. Interest accrued as of September 30, 2011 is \$6,961.</p>	278,372	-
<p>The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), providing for a maximum loan amount of \$281,230. The interest rate is 6% per annum and the loan is secured by the 35 Nightingale Project. Repayment of the loan is due May 31, 2012. Interest accrued as of September 30, 2011 is \$2,240.</p>	140,000	-
<p>The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), providing for a maximum loan amount of \$255,751. The interest rate is 6% per annum and the loan is secured by the 59 Spencer Project. Repayment of the loan is due May 31, 2012. Interest accrued as of September 30, 2011 is \$3,196.</p>	255,751	-
<p>The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), providing for a maximum loan amount of \$196,000. The loan is interest free and secured by the 35 Nightingale Project. Repayment of the loan is due June 1, 2013.</p>	176,400	-
<p>The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), providing for a maximum loan amount of \$208,917. The loan is interest free and secured by the 59 Spencer Project. Repayment of the loan is due June 1, 2013.</p>	188,025	-

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable-Continued

	2011	2010
<i>157 Washington Reality Trust</i>		
The balance consists of two notes payable to a subsidiary whose interest was divested during fiscal year 2011 and therefore not included in the consolidation at September 30, 2011.	-	1,626,165
<i>Talbot Station I LLC (TS LLC)</i>		
TS LLC has a note payable to LISC, providing for a maximum loan amount of \$1,147,986. 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.	948,290	405,000
TS LLC has a note payable to Neighborworks Capital Corporation, providing for a maximum loan amount of \$200,000. The note has an interest rate of 4.5% per annum. Repayment is due on the earlier of the initial disbursement of construction financing or December 1, 2013. As of September 30, 2011 accrued interest was \$4,544. The note is guaranteed by CSDNC.	200,000	-
<i>Whittier Place LLC (WP LLC)</i>		
WP LLC has a note payable to Life Insurance Community Initiative, Inc., providing for a maximum loan amount of \$616,500. The note has an interest rate of 6.5% per annum. The loan is secured by the 1 Darlington Street parcel. Repayment is due on the earlier of the date of closing on any portion of the construction financing or June 26, 2012. The note is guaranteed by CSDNC.	616,500	-
WP LLC has a note payable to LISC, providing for a maximum loan amount of \$100,000. The note has an interest rate of 4.5% per annum. Repayment is due on June 1, 2013. As of September 30, 2011 accrued interest was \$679.	90,602	-
<i>On The Square, Inc.</i>		
The Corporation has a note payable to Citizens Bank, secured by the property and the assignment of rents and leases, with fixed interest at 6.59%. Monthly payments of principal and interest, currently \$6,645, are based on a twenty-five-year amortization schedule. The unpaid balance of principal and interest is due March 2015. The note is guaranteed by CSNDC.	849,236	871,100

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable-Continued

	2011	2010
<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, 2011 and 2010 was \$5,327 and \$5,712, respectively. The note is guaranteed by CSDNC.</p>	103,592	113,017
<i>Lithgow Commercial Limited Partnership</i>		
<p>The Partnership has a mortgage note payable to Mt. Washington Bank, with interest at a fixed rate of 5.99%, secured by a first mortgage on the Project and an assignment of leases and rents. The note requires monthly payments of \$6,242, with the balance due August 30 2041. Accrued interest at September 30, 2011 and 2010 was \$2,999 and \$4,458, respectively.</p>	988,015	1,070,190
<p>The Partnership has a 1.5% construction loan payable to the Department of Neighborhood Development of the City of Boston in the amount of \$1,468,177, secured by a third mortgage on the Project. Principal and interest are due on August 15, 2041. Accrued interest at September 30, 2011 and 2010 was \$1,835 and \$1,128,267, respectively. This loan was renegotiated during 2011 whereby outstanding principal and interest were combined, the interest rate was reduced to 1.5% and \$470,668 was forgiven.</p>	1,468,177	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>	1,404,672	1,431,465
<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, 2011 and 2010 was \$43,644 and \$92,997, respectively.</p>	3,988,950	4,478,256

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable-Continued

	2011	2010
<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, 2011 and 2010 was \$10,300 and \$8,584, 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, 2011 and 2010 was \$25,114 and \$25,444, respectively.</p>	4,970,761	5,039,754
<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, 2011 and 2010 was \$135,919 and \$148,759, respectively.</p>	3,481,204	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, 2011 and 2010 was \$44,112 and \$83,427, respectively.</p>	2,099,714	2,085,267
Total	33,434,535	33,622,098
Less current portion	2,282,724	5,800,033
Notes payable, net of current portion	<u>\$ 31,151,811</u>	<u>\$ 27,822,065</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

9. Notes Payable-Continued

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

2012	\$ 2,282,724
2013	1,855,483
2014	1,053,149
2015	250,802
2016	260,805
Thereafter	<u>27,731,572</u>
Total	<u>\$ 33,434,535</u>

10. 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, WCALP, WCAII and LCLP have a policy to collect security deposits of up to one months 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, 2011 and 2010 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.

11. Restricted Net Assets

Permanently restricted net assets consist of grants received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund from 1996 through 2011:

	<i>2011</i>	<i>2010</i>
Initial grant - currently held in cash	\$ 413,090	\$ 228,112
Grant funds used for real estate development	1,175,004	961,992
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>\$ 1,963,094</u>	<u>\$ 1,565,104</u>

During fiscal year 2011 the Neighborhood Reinvestment Corporation (NRC) allowed CSNDC to release \$176,510 of permanently restricted Revolving Loan funds into temporarily restricted net assets for purpose of establishing a loan reserve fund.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2011

12. Commercial Leases

Future minimum lease payments under operating leases from tenants, not including CSNDC are as follows: \$165,922 in 2012 \$111,482 in 2013 \$49,134 in 2014 \$38,349 in 2015 and \$38,349 in 2016.

13. Short-term Investments

CSNDC holds short term investments in certificates of deposits with various financial institutions located in Massachusetts. The investments are recorded at cost which was \$491,970 at September 30, 2011. All investments are due within one year of the financial statement date and interest earned in investments for fiscal year 2011 was \$10,085

14. 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, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
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>

15. Income Taxes

CSNDC's for-profit subsidiaries had provisions for income taxes for the year ended September 30, 2011 and 2010 consisting of the following:

	<i>2011</i>	<i>2010</i>
State tax expense	\$ 8,208	\$ 7,296
Federal tax expense	<u>-</u>	<u>-</u>
Total	<u>\$ 8,208</u>	<u>\$ 7,296</u>

As of September 30, 2011, CSNDC's for-profit subsidiaries had net operating loss carryforwards totaling approximately \$1,057,000 and tax credit carryforwards totaling approximately \$90,000. These net operating loss and tax credit carryforwards will expire at various times between 2011 and 2027. It is unclear if CSNDC will realize value from these credits and loss carryforwards; accordingly a related tax deferred asset has not been recorded.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

16 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.

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 CSNDC's loan loss reserve estimate would change and the realizable value of its real estate holdings would decrease.

17. 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, 2011 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	\$ 550,000	\$ 251,122	\$ 298,878
Mount Washington Bank	166,500	-	166,500
Massachusetts Housing Investment Corporation	1,372,480	1,038,548	333,932
Massachusetts Housing Finance Agency	27,000	24,161	2,839
Local Initiatives Support Corporation	1,147,986	948,290	199,696
Total	<u>\$ 3,263,966</u>	<u>\$ 2,262,121</u>	<u>\$ 1,001,845</u>

Purchase Commitments

During 2010, TSLLC entered into a purchase and sale agreement to purchase a parcel of land. The amount of the commitment was \$222,860 and as of September 30, 2011 TSLLC had paid a deposit of \$5,000.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2011

18. *Joint Venture*

During 2011 CSNDC entered into a joint venture with South West Boston Community Development Corporation (SWBCDC) for the development of several parcels in Dorchester, Ma. CSNDC guaranteed SWBCDC's line of credit which had an outstanding balance of \$70,000 at September 30, 2011.

19. *Real Estate held for Future Use*

CSNDC, FCP, TSLLC and WPLLC 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.

20. *Guarantees*

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

<u>Borrower</u>	<u>Lender</u>	<u>Balance at September 30, 2011</u>
526 Park Street, Inc.	CEDAC	\$ 300,000
Talbot Bernard LLC	City of Boston	\$ 1,350,000

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, 2011, 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, 2011

21. *Contingent Liability*

CSR's, WCA's, WCAII's and GLA's loan agreements described in Note 9, 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.

22. *Gain on Sale of Real Estate*

CSR sold its 412 Talbot Project during fiscal year 2011. The gain from the sale is as follows:

	<i>421 Talbot Avenue</i>
Sales price	\$ 305,000
Grant income	240,000
Debt forgiveness	174,710
Cost of goods sold	<u>(648,382)</u>
Gross profit	<u>\$ 71,328</u>

The construction of the Property was funded by two loans, one of which was from the Department of Neighborhood Development (DND). Pursuant to the loan agreement with DND if certain provisions in the loan agreement were met the loan would be forgiven. During 2011 the Corporation satisfied those provisions and \$174,710 of debt was discharged. Additionally, Massachusetts Housing Partnership (MHP) provided the Corporation with a grant in the amount of \$240,000 which was used in conjunction with sales proceeds to repay the outstanding principal and interest on the related MHIC loan.

23. *Consolidation*

For financial reporting purposes, the financial position and activities of CSNDC and its twenty-nine 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, 2011

23. Consolidation – Continued

A summary of this consolidation is as follows:

	<i>CSNDC</i>	<i>Subsidiaries</i>	<i>Eliminations</i>	<i>Total</i>
Assets	<u>\$ 24,602,951</u>	<u>\$ 51,518,366</u>	<u>\$ (16,229,552)</u>	<u>\$ 59,891,765</u>
Liabilities	\$ 1,059,901	\$ 42,340,934	\$ (4,355,279)	\$ 39,045,556
Net assets / equity	<u>23,543,050</u>	<u>9,177,432</u>	<u>(11,874,273)</u>	<u>20,846,209</u>
Total liabilities and net assets	<u>\$ 24,602,951</u>	<u>\$ 51,518,366</u>	<u>\$ (16,229,552)</u>	<u>\$ 59,891,765</u>
Revenues	\$ 2,709,196	\$ 7,636,093	\$ (133,162)	\$ 10,212,127
Expenses	<u>1,840,295</u>	<u>7,397,077</u>	<u>(363,052)</u>	<u>8,874,320</u>
Change in net assets / retained earnings	<u>\$ 868,901</u>	<u>\$ 239,016</u>	<u>\$ 229,890</u>	<u>\$ 1,337,807</u>

24. Subsequent Events

CSNDC has evaluated subsequent events through February 28, 2012, 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, 2011

Assets

<i>Assets</i>	
Cash and cash equivalents	\$ 589,600
Real-estate development	1,175,004
Mortgages to qualified homeowners	<u>375,000</u>
Total Assets	<u><u>\$ 2,139,604</u></u>

Liabilities and Net Assets

<i>Net assets</i>	
Temporarily restricted	\$ 176,510
Permanently restricted	<u>1,963,094</u>
Total net assets	<u>2,139,604</u>
Total liabilities and net assets	<u><u>\$ 2,139,604</u></u>

Schedule of Activities – Neighborhood Reinvestment Capital Fund
For the Year Ended September 30, 2011

Revenue and support

Capital Grant - Neighborhood reinvestment	<u>\$ 574,500</u>
Change in net assets	574,500
Net assets, beginning of year	<u>1,565,104</u>
Net assets, end of year	<u><u>\$ 2,139,604</u></u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Financial Position
September 30, 2011

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	\$ 1,730,705	\$ 747,744	\$ 797,151	\$ -	\$ 3,275,600
Funds held in trust	72,606	8,281	173,721	-	254,608
Accounts receivable:					
Grants and contracts	797,494	-	-	-	797,494
Other	145,801	29,786	98,712	-	274,299
Restricted cash	589,600	-	-	-	589,600
Deposits	-	5,000	-	-	5,000
Short-term investments	491,970	-	-	-	491,970
Mortgage loans receivable - net of reserves	-	1,285	-	-	1,285
Prepaid expenses	14,161	562	67,315	-	82,038
Total current assets	<u>3,842,337</u>	<u>792,658</u>	<u>1,136,899</u>	<u>-</u>	<u>5,771,894</u>
<i>Property and Equipment</i>					
Land	-	943,295	1,227,764	-	2,171,059
Buildings and improvements	152,999	500,000	55,697,314	-	56,350,313
Office equipment and furniture	93,791	-	2,938,765	-	3,032,556
	246,790	1,443,295	59,863,843	-	61,553,928
Less accumulated depreciation	(149,729)	-	(23,225,604)	-	(23,375,333)
Construction in progress	-	3,343,788	-	-	3,343,788
Net property and equipment	<u>97,061</u>	<u>4,787,083</u>	<u>36,638,239</u>	<u>-</u>	<u>41,522,383</u>
<i>Noncurrent Assets</i>					
Cash - other	-	452,818	4,755,118	-	5,207,936
Real estate held for future use	-	1,873,827	-	-	1,873,827
Due from related parties	4,584,324	505,029	-	(4,365,164)	724,189
Capitalized fees	-	-	562,226	-	562,226
Deferred tax asset	-	-	14,469	-	14,469
Investment in subsidiaries	11,864,388	-	-	(11,864,388)	-
Notes receivable and accrued interest - related parties	4,214,841	-	-	-	4,214,841
Total noncurrent assets	<u>20,663,553</u>	<u>2,831,674</u>	<u>5,331,813</u>	<u>(16,229,552)</u>	<u>12,597,488</u>
Total assets	<u>\$ 24,602,951</u>	<u>\$ 8,411,415</u>	<u>\$ 43,106,951</u>	<u>\$ (16,229,552)</u>	<u>\$ 59,891,765</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Financial Position - *continued*
September 30, 2011

Liabilities and Net Assets

	CSNDC	Non-Rental Program Services	Rental Real Estate	Eliminations	Consolidated
<i>Current Liabilities</i>					
Accounts payable	\$ 19,025	\$ 866,574	\$ 148,461	\$ (25,898)	\$ 1,008,162
Current portion of notes payable	359,762	1,713,015	209,947	-	2,282,724
Accrued expenses	70,702	20,050	159,747	-	250,499
Accrued interest	-	12,397	-	-	12,397
Prepaid rent	-	2,000	74,464	-	76,464
Deferred management fee	-	-	26,929	-	26,929
Due to related parties	108,588	3,571,595	974,077	(4,329,381)	324,879
Funds held in trust	74,266	7,163	165,637	-	247,066
Total current liabilities	<u>632,343</u>	<u>6,192,794</u>	<u>1,759,262</u>	<u>(4,355,279)</u>	<u>4,229,120</u>
<i>Noncurrent liabilities</i>					
Notes payable, net of current portion	427,558	2,021,216	28,703,037	-	31,151,811
Accrued interest	-	53,027	3,548,261	-	3,601,288
Losses in excess of investments in partnerships	-	63,337	-	-	63,337
Total noncurrent liabilities	<u>427,558</u>	<u>2,137,580</u>	<u>32,251,298</u>	<u>-</u>	<u>34,816,436</u>
Total liabilities	<u>1,059,901</u>	<u>8,330,374</u>	<u>34,010,560</u>	<u>(4,355,279)</u>	<u>39,045,556</u>
<i>Net Assets</i>					
Owners' equity	-	81,041	9,096,391	(9,177,432)	-
Unrestricted	21,403,446	-	-	(2,696,841)	18,706,605
Temporarily restricted	176,510	-	-	-	176,510
Permanently restricted	1,963,094	-	-	-	1,963,094
Total net assets	<u>23,543,050</u>	<u>81,041</u>	<u>9,096,391</u>	<u>(11,874,273)</u>	<u>20,846,209</u>
Total liabilities and net assets	<u>\$ 24,602,951</u>	<u>\$ 8,411,415</u>	<u>\$ 43,106,951</u>	<u>\$ (16,229,552)</u>	<u>\$ 59,891,765</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Revenue and Expenses
September 30, 2011

	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
Revenue and Support					
Contributions:					
Neighborhood reinvestment	\$ 687,500	\$ -	\$ -	\$ -	\$ 687,500
HomeFree USA grant	19,077	-	-	-	19,077
Other	1,023,892	-	-	-	1,023,892
Government grants and contracts	171,145	351,000	-	-	522,145
Interest on notes receivable - related parties	211,932	-	-	(18,418)	193,514
Resident services fees - related parties	191,067	-	-	(118,900)	72,167
Management fees - related parties	156,970	-	-	(107,946)	49,024
Staff cost reimbursements - related parties	198,744	-	-	(15,166)	183,578
Developer fees - related parties	200,777	-	-	(76,010)	124,767
Interest income	15,787	8,892	28,737	-	53,416
Net (loss) on investments in partnerships	(239,776)	27,156	-	239,776	27,156
Gain on sale of real-estate	-	(4,682)	-	76,010	71,328
Rental income	-	37,353	6,514,628	(77,645)	6,474,336
Insurance proceeds	-	18,586	73,366	-	91,952
Forgiveness of debt income	-	-	505,531	(34,863)	470,668
Other	72,081	22,217	53,309	-	147,607
	<u>2,709,196</u>	<u>460,522</u>	<u>7,175,571</u>	<u>(133,162)</u>	<u>10,212,127</u>
Expenses					
Program services					
Real estate development	487,578	179,557	-	(25,082)	642,053
Resident services	450,434	-	-	(22,355)	428,079
Neighborhood stabilization	368,503	38,373	-	(34,435)	372,441
Asset management	176,747	28,081	7,151,066	(263,461)	7,092,433
Economic development	70,096	-	-	(3,479)	66,617
	<u>1,553,358</u>	<u>246,011</u>	<u>7,151,066</u>	<u>(348,812)</u>	<u>8,601,623</u>
Supporting services					
General administrative	251,212	-	-	(5,784)	245,428
Fundraising	35,725	-	-	(8,456)	27,269
	<u>286,937</u>	<u>0</u>	<u>0</u>	<u>(14,240)</u>	<u>272,697</u>
Total expenses	<u>1,840,295</u>	<u>246,011</u>	<u>7,151,066</u>	<u>(363,052)</u>	<u>8,874,320</u>
Excess of revenue over expenses from operations	<u>\$ 868,901</u>	<u>\$ 214,511</u>	<u>\$ 24,505</u>	<u>\$ 229,890</u>	<u>\$ 1,337,807</u>

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Codman Square Neighborhood Development Corporation
Schedule of Expenditures of Federal Awards
For The Year Ended September 30, 2011

<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>
<i>U.S. Department of Health and Human Services</i>			
Community Services Block Grant	93.570	-	\$ <u>175,295</u>
Total U.S. Department of Health and Human Services			<u>175,295</u>
<i>U.S. Department of Housing and Urban Development</i>			
Pass through Department of Neighborhood Development			
Community Development Block Grant	14.218	-	107,560
HOME Investment Partnerships Program Grant	14.239	-	53,020
Pass through Local Initiatives Support Corporation			
Section 4 Guarantee Recovery Fund	14.252	-	38,568
Pass through HomeFree - USA			
HUD Housing Counseling Funds	14.316	-	<u>19,077</u>
Total U.S. Department of Housing and Urban Development			<u>218,225</u>
<i>U.S. Department of Treasury</i>			
Pass through NeighborWorks America			
Neighborhood Reinvestment Corporation *			
Restricted Capital Funds	21.000	-	1,765,104
Expendable Grant Funds	21.000	-	<u>103,000</u>
Total U.S. Department of Treasury			<u>1,868,104</u>
Total Federal Financial Assistance			<u>\$ 2,261,624</u>

* indicates a major Federal Program

Codman Square Neighborhood Development Corporation
Notes to Schedule of Expenditures of Federal Awards
September 30, 2011

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, 2011, and have issued our report thereon dated February 28, 2012. 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 deficiencies, 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 28, 2012

**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

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect of 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 CSNDC's major federal program for the year ended September 30, 2011. CSNDC's major federal program is 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 its major federal program 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 its major federal program for the year ended September 30, 2011.

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 28, 2012

**SCHEDULE OF
FINDINGS AND QUESTIONED COSTS**

Codman Square Neighborhood Development Corporation
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

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 program.
5. The auditors' report on compliance for the major federal award program for Codman Square Neighborhood Development Corporation expresses an unqualified opinion on the major program.
6. Audit findings relative to the major federal award program for Codman Square Neighborhood Development Corporation are reported in Part C. of this Schedule.
7. The program tested as a major program was:
Neighbor Works (CFDA #21.000)
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

No findings were noted for the year ended September 30, 2010.