

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

Financial Statements  
and  
Auditors' Report

September 30, 2012 with Comparative Totals for 2011



**Daniel Dennis & Company LLP**  
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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 consolidated statement of financial position of Codman Square Neighborhood Development Corporation and Subsidiaries (CSNDC) (a nonprofit organization) as of September 30, 2012 and the related consolidated 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, 2011 and in our report dated February 28, 2012, 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 consolidated financial position of CSNDC as of September 30, 2012, and the consolidated changes in its net assets and its consolidated 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 March 6, 2012 on our consideration of internal control over financial reporting and our testing 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 the 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 consolidated 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 consolidated financial statements. Also the additional supplemental consolidating schedules are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Daniel Dennis & Company LLP*

*March 6, 2013*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Consolidated Statement of Financial Position  
September 30, 2012  
With Comparative Totals for 2011

<i>Assets</i>		
	<i>2012</i>	<i>2011</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,355,555	\$ 3,275,600
Funds held in trust	186,393	254,608
Accounts receivable:		
Grants and contracts	306,187	797,494
Other - net of reserves	116,546	274,299
Restricted cash	875,303	589,600
Deposits	1,500	5,000
Short-term investments	574,732	491,970
Mortgage loans receivable - net of reserves	1,293	1,285
Prepaid expenses	<u>108,887</u>	<u>82,038</u>
Total current assets	<u>5,526,396</u>	<u>5,771,894</u>
<i>Property and Equipment</i>		
Land	2,485,412	2,171,059
Buildings and improvements	59,053,096	56,350,313
Office equipment and furniture	<u>3,309,667</u>	<u>3,032,556</u>
	64,848,175	61,553,928
Less accumulated depreciation	(25,195,897)	(23,375,333)
Construction in progress	<u>684,830</u>	<u>3,343,788</u>
Net property and equipment	<u>40,337,108</u>	<u>41,522,383</u>
<i>Noncurrent Assets</i>		
Cash - other	5,520,454	5,207,936
Investments	234,866	-
Real estate held for future use	1,214,485	1,873,827
Mortgage loans receivable - net of reserves	2,302	-
Due from related parties	962,588	724,189
Capitalized fees, net	566,806	562,226
Deferred tax asset	4,006	14,469
Notes receivable and accrued interest - related parties - net of reserves	<u>8,886,389</u>	<u>4,214,841</u>
Total noncurrent assets	<u>17,391,896</u>	<u>12,597,488</u>
Total assets	<u>\$ 63,255,400</u>	<u>\$ 59,891,765</u>

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Consolidated Statement of Financial Position - *Continued*  
September 30, 2012  
With Comparative Totals for 2011

<i>Liabilities and Net Assets</i>		
	<i>2012</i>	<i>2011</i>
<i>Current Liabilities</i>		
Accounts payable	\$ 244,327	\$ 1,008,162
Current portion of notes payable	978,064	2,282,724
Accrued expenses	340,336	250,499
Accrued interest	49,656	12,397
Prepaid rent	58,071	76,464
Deferred management fee	26,929	26,929
Due to related parties	302,125	324,879
Funds held in trust	<u>239,165</u>	<u>247,066</u>
Total current liabilities	<u>2,238,673</u>	<u>4,229,120</u>
<i>Noncurrent liabilities</i>		
Notes payable, net of current portion	31,324,929	31,151,811
Accrued interest	3,692,535	3,601,288
Losses in excess of investments in partnerships	<u>59,304</u>	<u>63,337</u>
Total noncurrent liabilities	<u>35,076,768</u>	<u>34,816,436</u>
Total liabilities	<u>37,315,441</u>	<u>39,045,556</u>
<i>Net Assets</i>		
Unrestricted	23,801,714	18,706,605
Temporarily restricted	176,510	176,510
Permanently restricted	<u>1,961,735</u>	<u>1,963,094</u>
Total net assets	<u>25,939,959</u>	<u>20,846,209</u>
Total liabilities and net assets	<u>\$ 63,255,400</u>	<u>\$ 59,891,765</u>

*See accompanying notes to financial statements.*

# Codman Square Neighborhood Development Corporation and Subsidiaries

## Consolidated Statement of Activities

For the Year Ended September 30, 2012

With Summarized Comparative Totals for 2011

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2012 Total</i>	<i>2011 Total</i>
<b>Revenue and Support</b>					
Contributions:					
Neighborhood reinvestment	\$ 132,145	\$ -	\$ 175,000	\$ 307,145	\$ 687,500
Other	1,141,260	-	-	1,141,260	1,042,969
Government grants and contracts	306,303	-	-	306,303	522,145
Interest on notes receivable - related parties	251,956	-	-	251,956	193,514
Resident services fees - related parties	76,727	-	-	76,727	72,167
Management fees - related parties	42,242	-	-	42,242	49,024
Staff cost reimbursements - related parties	577,553	-	-	577,553	183,578
Developer fees - related parties	385,526	-	-	385,526	124,767
Interest income	32,919	-	-	32,919	53,416
Net gain on investments in partnerships	14,389	-	-	14,389	27,156
Gain on sale of real-estate	220,656	-	-	220,656	71,328
Rental income	6,222,964	-	-	6,222,964	6,474,336
(Loss) gain on insurance claim	(4,982)	-	-	(4,982)	91,952
Forgiveness of debt income	178,640	-	-	178,640	470,668
Other	508,783	-	-	508,783	147,607
Net assets released from restriction	176,359	-	(176,359)	-	-
Total revenue and support	<u>10,263,440</u>	<u>-</u>	<u>(1,359)</u>	<u>10,262,081</u>	<u>10,212,127</u>
<b>Expenses</b>					
Program services					
Real estate development	697,017	-	-	697,017	642,053
Resident services	608,346	-	-	608,346	428,079
Neighborhood stabilization	346,887	-	-	346,887	372,441
Asset management	6,712,532	-	-	6,712,532	7,092,433
Economic development	43,969	-	-	43,969	66,617
Total program services	<u>8,408,751</u>	<u>-</u>	<u>-</u>	<u>8,408,751</u>	<u>8,601,623</u>
Supporting services					
General administrative	234,075	-	-	234,075	245,428
Fundraising	9,945	-	-	9,945	27,269
Total supporting services	<u>244,020</u>	<u>-</u>	<u>-</u>	<u>244,020</u>	<u>272,697</u>
Total expenses	<u>8,652,771</u>	<u>-</u>	<u>-</u>	<u>8,652,771</u>	<u>8,874,320</u>
Excess of revenue over expenses from operations	1,610,669	-	(1,359)	1,609,310	1,337,807
<b>Unusual item</b>					
Purchase of an affiliate	3,484,440	-	-	3,484,440	-
Change in net assets	5,095,109	-	(1,359)	5,093,750	1,337,807
<b>Net assets, beginning of year</b>	<u>18,706,605</u>	<u>176,510</u>	<u>1,963,094</u>	<u>20,846,209</u>	<u>19,518,523</u>
Affects of unconsolidated subsidiaries	-	-	-	-	(10,121)
<b>Net assets, beginning of year - restated</b>	<u>18,706,605</u>	<u>176,510</u>	<u>1,963,094</u>	<u>20,846,209</u>	<u>19,508,402</u>
<b>Net assets, end of year</b>	<u>\$ 23,801,714</u>	<u>\$ 176,510</u>	<u>\$ 1,961,735</u>	<u>\$ 25,939,959</u>	<u>\$ 20,846,209</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, 2012**  
**With Summarized Comparative Totals for 2011**

	<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>2012 Total</i>	<i>2011 Total</i>
Salaries	\$ 312,189	\$ 396,466	\$ 202,136	\$ 673,211	\$ 30,090	\$ 1,614,092	\$ 152,892	\$ 3,120	\$ 1,770,104	\$ 1,822,639
Employee benefits	48,872	62,065	31,689	106,417	4,468	253,511	24,127	492	278,130	233,856
Payroll taxes	30,562	38,812	19,422	62,249	3,188	154,233	15,088	308	169,629	151,794
Total salaries and related expenses	<u>391,623</u>	<u>497,343</u>	<u>253,247</u>	<u>841,877</u>	<u>37,746</u>	<u>2,021,836</u>	<u>192,107</u>	<u>3,920</u>	<u>2,217,863</u>	<u>2,208,289</u>
Professional fees	13,240	8,897	17,235	113,909	684	153,965	3,489	72	157,526	219,589
Consulting fees	20,727	12,501	14,908	6,504	1,123	55,763	5,622	115	61,500	61,365
Program expenses	4,611	33,321	10,276	1,048	404	49,660	2,531	52	52,243	30,559
Travel, conferences and meetings	15,149	20,803	12,343	4,024	1,466	53,785	7,675	5,474	66,934	18,970
Staff training	4,446	5,945	3,392	2,974	306	17,063	2,008	41	19,112	12,583
Telephone	4,890	5,551	3,040	45,328	389	59,198	2,122	43	61,363	55,394
Utilities	2,627	2,505	1,791	1,004,448	190	1,011,561	974	20	1,012,555	981,208
Postage and delivery	-	-	-	4,504	-	4,504	-	-	4,504	8,506
Advertising	-	-	-	11,801	-	11,801	-	-	11,801	7,936
Office expense	10,064	14,317	8,822	45,924	937	80,064	6,016	123	86,203	87,690
Community benefit expense	-	-	-	-	-	-	-	-	-	8,675
Special events	-	-	-	-	-	-	-	-	-	32,006
Insurance	6,504	2,489	1,818	147,739	357	158,907	1,567	32	160,506	129,603
Temporary personnel	186	236	120	47	18	607	92	1	700	1,714
Interest expense	122,251	80	2,393	1,001,331	10	1,126,065	788	16	1,126,869	1,081,617
Contracted services	-	-	-	634,862	-	634,862	-	-	634,862	689,635
Repairs and maintenance	-	-	-	156,375	-	156,375	1,231	-	157,606	242,526
Real estate taxes	23,420	-	899	565,229	-	589,548	-	-	589,548	547,746
Taxes and fees	596	133	551	16,892	19	18,191	84	2	18,277	7,321
Bad debt	35,000	-	1,767	3,537	-	40,304	6,127	-	46,431	178,479
Depreciation and amortization	15,698	4,225	9,530	1,741,577	320	1,771,350	1,642	34	1,773,026	1,815,592
Loss on investment in real-estate	20,417	-	-	-	-	20,417	-	-	20,417	170,664
Management fees	-	-	-	313,120	-	313,120	-	-	313,120	165,048
Miscellaneous	5,568	-	4,755	49,482	-	59,805	-	-	59,805	111,605
Total expenses	<u>\$ 697,017</u>	<u>\$ 608,346</u>	<u>\$ 346,887</u>	<u>\$ 6,712,532</u>	<u>\$ 43,969</u>	<u>\$ 8,408,751</u>	<u>\$ 234,075</u>	<u>\$ 9,945</u>	<u>\$ 8,652,771</u>	<u>\$ 8,874,320</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, 2012**  
**With Comparative Totals for 2011**

	2012	2011
<i>Cash Flows From Operating Activities:</i>		
Change in net assets	\$ 5,093,750	\$ 1,337,807
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,773,026	1,815,592
Loss on the transfer of real-estate	20,417	-
Bad debt expense	46,431	178,479
Discount on notes receivable	210,595	-
Debt forgiveness income	(898,529)	(645,378)
Accrued interest income	251,956	(193,514)
Affects of unconsolidated subsidiary	-	(10,121)
Affects of purchase of an affiliate	(3,484,440)	-
Net (gain)/loss on investments in partnerships	(14,389)	(27,156)
(Increase)/decrease in operating assets:		
Accounts receivable	145,344	(312,356)
Deposits	3,500	70,000
Deferred tax asset	10,463	-
Grant and contracts receivable	77,677	(135,237)
Mortgage loans receivable	(6,050)	(879)
Assets held for sale	-	422,689
Prepaid expenses	(26,849)	(473)
Increase/(decrease) in operating liabilities:		
Accounts payable	(242,874)	798,253
Accrued expenses	218,241	176,032
Deferred revenue	(87,881)	(3,036)
Accrued interest	91,810	-
Funds held in trust	4,419	(79,852)
Net cash provided by operating activities	<u>3,186,617</u>	<u>3,390,850</u>
<i>Cash flows from investing activities:</i>		
(Increase)/decrease in cash - other	(949,261)	100,848
Increase in investments - other	(317,628)	-
Decrease in amounts due to related parties	1,147,410	(762,739)
(Increase)/decrease in related party notes receivable	(1,830,580)	704,507
Sale of land	179,200	-
Purchase of land	(103,800)	-
Payments for capitalized costs	(312,249)	(2,518,206)
Payments for property and equipment	(570,893)	(1,736,224)
Net cash used by investing activities	<u>(2,757,801)</u>	<u>(4,211,814)</u>
<i>Cash flows from financing activities:</i>		
Proceeds from notes payable	1,517,266	2,488,940
Payment of financing fees	(26,953)	-
Repayment of notes payable	(1,839,174)	(1,605,172)
Net cash proved by (used by) financing activities	<u>(348,861)</u>	<u>883,768</u>
Net change in cash	<u>79,955</u>	<u>62,804</u>
Cash, beginning of year	<u>3,275,600</u>	<u>3,212,796</u>
Cash, at end of year	<u>\$ 3,355,555</u>	<u>\$ 3,275,600</u>
<i>Supplementary Disclosure of Cash Flow Information</i>		
Cash paid during the year for interest	<u>\$ 998,363</u>	<u>\$ 1,002,929</u>
Cash paid during the year for income taxes	<u>\$ 9,119</u>	<u>\$ 8,208</u>

*See accompanying notes to financial statements.*

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements  
September 30, 2012

**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, 2012

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

#### *Revenue and Expenses*

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.

CSNDC recognizes revenue earned from construction or rehabilitation and sales of single and multi-family housing units when units are sold.

Rental income, principally from short-term leases on apartment units, is recognized on a monthly basis as the rents become due. Rental payments received in advance are deferred until earned. All leases between CSNDC, its subsidiaries, and controlled entities and its tenants are operating leases.

#### *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 thirty 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 Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *Principals of Consolidation – Continued*

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 and owns 99% of Codman Square Limited Partnership, 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. 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 .01% of 241 Talbot LLC and 157 Washington Street Managing Member (157WS), which owns .01% of 157 Washington Street AB&W LLC.

NTC, CSA, WCA, WC2A, LAI, LCI, LI, EEH, 241Corp, 157WS 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 thirty subsidiaries are for-profit corporations, limited liability companies (LLCs) or limited partnerships (LPs) except for CCDI which is a nonprofit organization.

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

#### *Net Asset Classification*

Net assets of CSNDC are classified into three categories based on the existence or absence of donor-imposed restrictions 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, 2012

### 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. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, CSNDC reports the support as unrestricted.

#### *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. CSNDC capitalizes all expenditures for furniture, equipment, and leasehold improvements with a useful life of more than one year and a cost of over \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Building	20 – 40 years
Improvements	5 – 40 years
Furniture & equipment	3 – 10 years

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

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *Property and Equipment – Continued*

Long lived assets, such as buildings are reviewed on an ongoing basis for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated by the asset including any estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds its fair value. As of September 30, 2012, management has determined that there has been no impairment of the long lived assets.

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.

#### *Capitalized Fees*

Capitalized fees are recorded at cost and amortized over the lives of the related loans or tax credit compliance periods.

#### *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.

#### *Investments in Partnerships and LLCs*

The Subsidiaries' investments in each of the partnerships and LLCs are accounted for using the equity method. Under the equity method, the investment is carried at cost and adjusted for the partnership's and LLC's share of income, losses, additional investments, and cash distributions from the partnerships. CSNDC ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero. Changes in the value of the investments, which are other than temporary, are recognized as necessary.

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

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *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 and current economic conditions. Accounts receivable are charged off when deemed uncollectible.

#### *Mortgage Loans Receivable*

Loans are stated at unpaid principal balances, less the allowance for loan losses and net of deferred loan fees and unearned discounts.

Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

#### *Fair Value Measurements*

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

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

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *Fair Value Measurements – Continued*

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

#### *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.

#### *Functional 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.

#### *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, 2012, 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.

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

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *Income Taxes*

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, 2012, CSNDC believes that it has no uncertain tax positions within its open tax returns and within any of its subsidiaries' open tax returns. The 2009 through 2011 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 and LLC's 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 and LLCs at advantageous terms. In most cases the subsidiary partnerships and LLCs 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.

#### *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, 2011, 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 years ended September 30, 2012 and 2011:

The balance includes a development fee receivable and accrued interest due from Talbot Bernard Housing LLC totaling \$256,995 and \$244,292 for the years ending September 30, 2012 and 2011, respectively. The outstanding balance accrues interest at 5.2% compounded annually. The partnership makes payments to CSNDC from allowable distributions of surplus funds generated by operations. Interest of \$12,699 and \$14,044 was accrued in fiscal year 2012 and 2011, respectively.

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

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

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, 2012 and 2011 was \$593,311 and \$519,199, respectively. Interest of \$74,110 and \$70,581 was recognized in fiscal years 2012 and 2011, 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 \$603,830 and \$584,799 at December 31, 2012 and 2011, respectively, using a discount rate of 5%. Interest of \$17,133 and \$51,130 was recognized in fiscal years 2012 and 2011, 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, 2012 and 2011 was \$225,796 and \$163,995, respectively. Principal and interest are due September 2038. Interest of \$61,803 and \$57,759 was recognized in fiscal years 2012 and 2011, respectively.

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, 2012 and 2011 was \$174,765 and \$129,765, respectively.

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, 2012 and 2011 was \$710,262 and \$695,000, respectively.

This balance also includes a note receivable from New Lithgow Residential LLC of \$195,891 for the development of the residential property. The outstanding balance is interest free. The note matures on December 31, 2020 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 note is being carried at a discounted value of \$168,877 at December 31, 2012, using a discount rate of 1.80%. Interest of \$3,010 and \$0 was recognized in fiscal years 2012 and 2011, respectively.

## Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

The balance also includes a note receivable from New Codman Square Apartments LLC of \$218,250 for the development of the residential property. The outstanding balance is interest free. The note matures on January 29, 2054 and the principal is due upon maturity. The balance of the note as of September 30, 2012 and 2011 was \$218,250 and \$0, respectively.

This balance also includes a note receivable from 241 Talbot Street LLC of \$561,224 for the development of the residential property. The outstanding balance is interest free. The note matures on December 20, 2025 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 note is being carried at a discounted value of \$377,643 at December 31, 2012, using a discount rate of 3%. Interest of \$8,332 and \$0 was recognized in fiscal years 2012 and 2011, respectively.

This balance also includes a note receivable from New Codman Square LLC of \$3,847,825 for the development of the residential property. The note bears interest at 2.8% and matures February 1, 2054. Payments are to be made from available cash flow as defined in the note agreement. At September 30, 2012 and 2011, the outstanding principal balance was \$3,847,825 and \$0, respectively and accrued interest was \$26,935 and \$0, respectively.

#### *Other Amounts Due From – Related Parties*

	<i>2012</i>	<i>2011</i>
241 Talbot LLC	\$ 98,030	\$ 79,321
157 AB&W LLC	609,640	437,159
New Lithgow Residential LP	202,164	154,830
Talbot Bernard Senior Housing, Inc	-	125
Talbot Bernard Housing, LLC	49,430	49,430
766 Washington LP	2,978	2,978
Girls Latin Corp	346	346
Total	<u>\$ 962,588</u>	<u>\$ 724,189</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

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

The following balances are fully reserved at September 30, 2012 and 2011:

*Advances to Related Parties with No Stated Interest Rates*

	<i>2012</i>	<i>2011</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

*Notes Receivable and Accrued Interest Receivable* *2012*      *2011*

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 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 junior mortgages on the property. Principal of \$490,432 and accrued interest were due June 2002. The loan was forgiven during fiscal year 2012. \$ -      \$ 1,916,863

*Income from Related Parties*

For the year ended September 30, 2012 and 2011, 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 the related Partnerships and LLCs as described above.

*Staff Costs Reimbursement Fees*

During fiscal year 2012 CSNDC earned staff costs reimbursement fee income of \$384,544 from 157 Washington AB&W LLC and \$193,009 from New Codman Square Apartments LLC. During fiscal year 2011 CSNDC earned staff costs reimbursement fee income of \$183,578 from 241 Talbot Ave LLC.

## Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

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

#### *Developer Fees*

During fiscal year 2012 CSNDC earned developer fee income of \$385,526 from 157 Washington AB&W LLC. During fiscal year 2011 CSNDC earned developer fee income of \$124,767 from 241 Talbot Ave LLC.

#### *Management Fees*

During fiscal year 2012 and 2011 management fees earned by CSNDC were \$42,242 and \$49,024, respectively.

#### *Resident Service Fees*

During fiscal year 2012 and 2011 resident service fees earned by CSNDC were \$76,727 and \$72,167, respectively. The income earned is for costs reimbursed to CSNDC from Erie Ellington 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 2012 and 2011:

	<i>2012</i>	<i>Total</i>	<i>Reserve</i>	<i>Net</i>
Accounts receivable - other	\$	261,388	\$ (144,842)	\$ 116,546
Mortgage loans receivable	\$	117,498	\$ (113,903)	\$ 3,595
Notes receivable - related parties	\$	11,185,880	\$ (2,299,491)	\$ 8,886,389
	<i>2011</i>	<i>Total</i>	<i>Reserve</i>	<i>Net</i>
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

### 5. *Restricted Cash*

The Grant funds received from NRC and DHCD are restricted for development. The balance at September 30, 2012 and 2011 was \$400,303 and \$589,600, respectively. Additionally, as of September 30, 2012 \$475,000 was restricted as collateral for the New Codman Square Apartments LLC. See Note 11 for more information.

## Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

### 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.

### 7. *Investments*

#### *Fair Value Method Investments*

CSNDC's restricted investments consist of certificates of deposit (CD's) with original maturities greater than three months. The fair value of the CD's, measured on a recurring basis, at September 30, 2012 is \$809,598 (Level 2).

The CD's have been valued using the income approach. The income approach to fair value measurement estimates the fair value by calculating the present value of future cash flows that the asset is expected to generate over its lifetime. The cash flows are discounted to the measurement date at the rate of return that is required to compensate for the risk associated with the receipt of the future cash flows. There were no changes in the valuation technique during fiscal year 2012.

### 8. *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%.

### 9. *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>2012</i>	<i>2011</i>
NDC Holdings, Inc.	\$ 255,071	\$ 2,151,759
Talbot Station LLC	429,759	-
Codman Square Rehab, Inc.	<u>-</u>	<u>1,192,029</u>
Total	<u>\$ 684,830</u>	<u>\$ 3,343,788</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable**

Notes payable consist of the following:

<i>CSNDC</i>	<i>2012</i>	<i>2011</i>
CSNDC had several recoverable grants from Local Initiatives Support Corporation (LISC), totaling \$35,000, for the development of various properties. These loans bear no interest and were forgiven as of September 30, 2012.	\$ -	\$ 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 related property.	234,406	153,024
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. During fiscal year 2012 the outstanding principal and interest was repaid.	-	150,000
A Predevelopment loan from CEDAC in the amount of \$200,000 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, 2012 and 2011 accrued interest was \$15,900 and \$5,098, respectively.	174,633	68,172
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. The loan was repaid in full during fiscal year 2012.	-	12,200

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<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 was secured by the Franklin Field South III Project. During fiscal year 2012 the loan was forgiven.</p>	-	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, 2012 and 2011 was \$50,166 and \$42,706, respectively.</p>	130,733	130,733
<p>A Predevelopment loan from LISC in the amount of \$30,000. The loan bears no interest. Repayment is due upon the earlier of closing of construction financing or February 1, 2012. The loan was in default as of September 30, 2012.</p>	30,000	30,000
<p>A Predevelopment loan from CEDAC in the amount of \$196,809, passed through to NDC Holdings. The loan bears interest at 3% per annum. During fiscal year 2012 the outstanding principal and interest was repaid.</p>	-	120,389
<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. During fiscal year 2012 the loan was assigned to Talbot Station LLC.</p>	-	840,291
<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, 2012 and 2011 the deferred interest was \$667,091 and \$666,716, respectively.</p>	3,524,081	3,566,596

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<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, 2012 and 2011 the deferred interest was \$2,568,259 and \$2,532,023, 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. During fiscal year 2012 the loan was forgiven.</p>	-	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, 2012 and 2011 accrued interest was \$95,349 and \$80,271, respectively.</p>	1,427,492	1,427,492
<i>Codman Square Rehab, Inc.</i>		
<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 was 6% per annum and the loan was secured by the 59 Spencer Project. During fiscal year 2012 the 59 Spencer Project was sold and the proceeds were used to repay the outstanding principal and interest. As of September 30, 2012 and 2011 accrued interest was \$0 and \$6,961, respectively.</p>	-	278,372
<p>The Corporation has a note payable to MHIC, providing for a maximum loan amount of \$281,230. The interest rate was 6% per annum and the loan was secured by the 35 Nightingale Project. During fiscal year 2012 the 35 Nightingale Project was sold and the proceeds were used to repay the outstanding principal and interest. As of September 30, 2012 and 2011 accrued interest was \$0 and \$2,241, respectively.</p>	-	140,000

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<p>The Corporation has a note payable to MHIC, providing for a maximum loan amount of \$255,751. The interest rate was 6% per annum and the loan was secured by the 15 Mallard Street Project. During fiscal year 2012 the outstanding principal and interest was repaid. As of September 30, 2012 and 2011 accrued interest was \$0 and \$3,196, respectively.</p>	-	255,751
<p>The Corporation has a note payable to MHIC, providing for a maximum loan amount of \$196,000. The loan was interest free and secured by the 35 Nightingale Project. The loan was forgiven upon the sale of the 35 Nightingale Project.</p>	-	176,400
<p>The Corporation has a note payable to MHIC, providing for a maximum loan amount of \$208,917. The loan was interest free and secured by the 59 Spencer Project. The loan was forgiven upon the sale of the 59 Spencer Project.</p>	-	188,025
<p>The Corporation has a note payable to City of Boston through Department of Neighborhood Development (DND) in the amount of \$25,500. The loan is interest free and is secured by the 15 Mallard Street property. Repayment is due in full on October 28, 2016.</p>	25,500	-
<p>The Corporation has a note payable to East Boston Savings Bank, providing for a maximum loan amount of \$166,500. As of September 30, 2012, \$165,978 has been received. The interest rate is 5.5% per annum and the loan is secured by the 15 Mallard Street property. The loan requires monthly payments of interest only and repayment is due in full on June 14, 2042.</p>	165,978	-
<p>The Corporation has a note payable to MHIC, in the amount of \$495,901. The loan is interest free and the loan is secured by the 15 Mallard Street property. Repayment of the loan is due November 30, 2026, however if the Corporation complies with the affordable housing agreement the loan will be forgiven on its maturity date.</p>	495,901	-
<i>Talbot Station I LLC (TS LLC)</i>		
<p>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. As of September 30, 2012 and 2011 accrued interest was \$5,500 and \$4,544, respectively</p>	1,147,986	948,290

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<p>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, 2012 and 2011 accrued interest was \$2,300 and \$0. The note is guaranteed by CSDNC.</p>	200,000	200,000
<i>Whittier Place LLC (WP LLC)</i>		
<p>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. As of September 30, 2012 and 2011 accrued interest was \$10,112 and \$0, respectively.</p>	616,500	616,500
<p>WP LLC has a note payable to Community Housing Capital (CHC), providing for a maximum loan amount of \$300,000. The note has an interest rate of 6.5% per annum. Repayment is due on the earlier of the close of the construction loan or September 6, 2014. The loan is secured by real estate at 4-6 Lyndhurst Avenue and guaranteed by CSNDC. As of September 30, 2012 and 2011 accrued interest was \$1,242 and \$0, respectively.</p>	110,000	-
<p>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, 2012 and 2011 accrued interest was \$0 and \$679, respectively.</p>	93,158	90,602
<p>The Corporation has a note payable to Citizens Bank in the amount of \$637,291. The note has an interest rate of 3% per annum. The loan is secured by real estate at 4-6 Lyndhurst Avenue and is guaranteed by CSNDC. The loan matures on February 28, 2013.</p>	637,291	-
<i>On The Square, Inc.</i>		
<p>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.</p>	825,567	849,236

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<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, 2012 and 2011 was \$5,155 and \$5,327, respectively. The note is guaranteed by CSDNC.</p>	93,407	103,592
<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, 2012 and 2011 was \$4,914 and \$2,999, respectively.</p>	964,073	988,015
<p>The Partnership has a 1.5% 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, 2012 and 2011 was \$27,010 and \$1,835, 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	1,468,177
<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. Accrued interest at September 30, 2012 and 2011 was \$6,673 and \$0, respectively.</p>	1,374,350	1,404,672
<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, 2012 and 2011 was \$18,098 and \$43,644, respectively.</p>	3,796,384	3,988,950

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
Notes to Consolidated Financial Statements - *Continued*  
September 30, 2012

**10. Notes Payable- Continued**

	2012	2011
<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, 2012 and 2011 was \$12,026 and \$10,300, 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, 2012 and 2011 was \$25,114 and \$25,114, respectively.</p>	4,897,513	4,970,761
<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, 2012 and 2011 was \$188,412 and \$135,919, respectively.</p>	3,261,413	3,481,204
<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, 2012 and 2011 was \$38,870 and \$44,112, respectively.</p>	2,099,713	2,099,714
Total	32,302,993	33,434,535
Less current portion	978,064	2,282,724
Notes payable, net of current portion	\$ 31,324,929	\$ 31,151,811

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

**10. Notes Payable- Continued**

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

2012	\$	978,064
2013		2,575,800
2014		1,354,568
2015		219,734
2016		257,460
Thereafter		<u>26,917,367</u>
Total	\$	<u><u>32,302,993</u></u>

**11. 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, CSR, 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, 2012 and 2011 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.

**12. Net Assets**

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, 2012 and 2011:

	2012	2011
Advanced to subsidiaries to finance development costs	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Total	<u><u>\$ 500,000</u></u>	<u><u>\$ 500,000</u></u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

**12. Net Assets – Continued**

Permanently restricted net assets consist of grants received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund from 1996 through 2012:

	2012	2011
Cash and Cash equivalents	\$ 161,250	\$ 413,090
Real-estate development	1,425,485	1,175,004
Mortgage to qualified homeowners	<u>375,000</u>	<u>375,000</u>
Total permanently restricted net assets	<u>\$ 1,961,735</u>	<u>\$ 1,963,094</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.

**13. Commercial Leases**

Future minimum lease payments under operating leases from tenants, not including CSNDC are as follows:

2013	\$ 201,482
2014	\$ 127,134
2015	\$ 103,349
2016	\$ 38,349
2017	\$ 38,349

**14. Income Taxes**

As of September 30, 2012, CSNDC's for-profit subsidiaries had net operating loss carryforwards totaling approximately \$1,098,442 and tax credit carryforwards totaling approximately \$64,307. 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, 2012

### **15. *Conditional Promises to Give***

Conditional promises to give consist of conditional grant awards to support CSNDC's programs. At September 30, 2012 conditional promises to give totaled \$247,986. The conditional promises to give will be recognized in the financial statements when the conditions on which they depended are substantially met.

### **16. *Concentrations***

#### *Cash*

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.

#### *Support*

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.

#### *Operations*

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.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

**17. Commitments**

*Loan Commitments*

CSNDC has received various financing commitments to fund construction costs related to renovations at several of its projects. As of September 30, 2012 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	\$ 400,000	\$ 305,366	\$ 94,634
Massachusetts Housing Finance Agency	27,000	24,161	2,839
Community Housing Capital	300,000	110,000	190,000
Local Initiatives Support Corporation	100,000	93,159	6,841
Total	<u>\$ 827,000</u>	<u>\$ 532,686</u>	<u>\$ 294,314</u>

**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 \$53,437 and \$70,000 at September 30, 2012 and 2011, respectively. Additionally, during fiscal year 2012 CSNDC guaranteed a loan from CEDAC to SWBCDC in the amount of \$400,000.

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

CSNDC, FCP, TSLLC, CSR and WPLL 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, 2012</u>
526 Park Street, Inc.	CEDAC	\$ 300,000
Talbot Bernard LLC	City of Boston	\$ 1,350,000
New Codaman Square Apartments	Boston Private Bank & Trust Company	\$ 10,000,000

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.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

**20. Guarantees – Continued**

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, 2012, management believes the risk of payments under the above guarantees is unlikely.

**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*

During fiscal year 2012 CSR sold its 59 Spencer and 35 Nightingale Projects. The gain from the sales is as follows:

	<i>59 Spencer</i>	<i>35 Nightingale</i>	<i>Total</i>
Sales price	\$ 380,000	\$ 330,000	\$ 710,000
Debt forgiveness	399,837	320,052	719,889
Cost of goods sold	<u>(653,897)</u>	<u>(555,336)</u>	<u>(1,209,233)</u>
Gross profit	<u>\$ 125,940</u>	<u>\$ 94,716</u>	<u>\$ 220,656</u>

The construction of the Property was funded through multiple loans from DND and MHIC. Pursuant to the loan agreements one with DND and one with MHIC if certain provisions in the loan agreements were met the loans would be forgiven. During fiscal year 2012 CSR satisfied those provisions and DND and MHIC discharged \$315,420 and \$404,469, respectively of debt.

**Codman Square Neighborhood Development Corporation and Subsidiaries**

Notes to Consolidated Financial Statements - *Continued*

September 30, 2012

**23. Unusual Item**

On February 9 2012, CCDI became the limited partner in Codman Square Limited Partnership (CSA), which owned nine buildings with 80 units of affordable housing and 3 commercial spaces. On June 29, 2012, CSA sold its real estate, personal property and other operating assets to an affiliate, New Codman Square Apartments, LLC for a purchase price of \$7,200,000. The following transactions occurred during CCDI's ownership of CSA from February 9, through June 29, 2012:

Loss on the sale of real estate	\$ (1,013,515)
Debt forgiveness income	4,653,224
Real-estate operating loss	<u>(155,269)</u>
Total Unusual Item	<u>\$ 3,484,440</u>

**24. Consolidation**

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

A summary of this consolidation is as follows:

	<i>CSNDC</i>	<i>Subsidiaries</i>	<i>Eliminations</i>	<i>Total</i>
Assets	<u>\$ 29,156,054</u>	<u>\$ 54,246,509</u>	<u>\$ (20,147,163)</u>	<u>\$ 63,255,400</u>
Liabilities	\$ 879,658	\$ 41,498,954	\$ (5,063,171)	\$ 37,315,441
Net assets / equity	<u>28,276,396</u>	<u>12,747,555</u>	<u>(15,083,992)</u>	<u>25,939,959</u>
Total liabilities and net assets	<u>\$ 29,156,054</u>	<u>\$ 54,246,509</u>	<u>\$ (20,147,163)</u>	<u>\$ 63,255,400</u>
Revenues	\$ 3,798,199	\$ 6,564,854	\$ (100,972)	\$ 10,262,081
Expenses	<u>1,916,889</u>	<u>7,065,488</u>	<u>(329,606)</u>	<u>8,652,771</u>
Excess of revenue over expenses from operations	1,881,310	(500,634)	228,634	1,609,310
Unusual item	<u>3,484,440</u>	<u>-</u>	<u>-</u>	<u>3,484,440</u>
Change in net assets	<u>\$ 5,365,750</u>	<u>\$ (500,634)</u>	<u>\$ 228,634</u>	<u>\$ 5,093,750</u>

**25. Subsequent Events**

CSNDC has evaluated subsequent events through March 6, 2013, 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, 2012

*Assets*

Cash and cash equivalents	\$ 337,760
Real-estate development	1,425,485
Mortgages to qualified homeowners	<u>375,000</u>
Total Assets	<u><u>\$ 2,138,245</u></u>

***Liabilities and Net Assets***

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*Net assets*

Temporarily restricted	\$ 176,510
CFRAH-Fund	374,500
Permanently restricted	<u>1,587,235</u>
Total net assets	<u>2,138,245</u>
Total liabilities and net assets	<u><u>\$ 2,138,245</u></u>

Schedule of Activities – Neighborhood Reinvestment Capital Fund  
For the Year Ended September 30, 2012

**Revenue and support**

Capital Grant - Neighborhood reinvestment	\$ 175,000
Net assets released from restriction	<u>(176,359)</u>
Change in net assets	(1,359)
Net assets, beginning of year	<u>2,139,604</u>
<b>Net assets, end of year</b>	<u><u>\$ 2,138,245</u></u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Financial Position**  
**September 30, 2012**

*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	\$ 1,711,995	\$ 523,945	\$ 1,119,615	\$ -	\$ 3,355,555
Funds held in trust	-	11,953	174,440	-	186,393
Accounts receivable:					
Grants and contracts	719,817	-	-	(413,630)	306,187
Other	252,961	74,343	99,914	(310,672)	116,546
Restricted cash	875,303	-	-	-	875,303
Deposits	1,500	-	-	-	1,500
Short-term investments	261,607	313,125	-	-	574,732
Mortgage loans receivable - net of reserves	-	1,293	-	-	1,293
Prepaid expenses	15,206	562	93,119	-	108,887
Total current assets	<u>3,838,389</u>	<u>925,221</u>	<u>1,487,088</u>	<u>(724,302)</u>	<u>5,526,396</u>
<i>Property and Equipment</i>					
Land	-	1,257,648	1,227,764	-	2,485,412
Buildings and improvements	152,999	2,951,191	56,048,627	(99,721)	59,053,096
Office equipment and furniture	97,077	-	3,212,590	-	3,309,667
	250,076	4,208,839	60,488,981	(99,721)	64,848,175
Less accumulated depreciation	(162,254)	(21,805)	(25,014,331)	2,493	(25,195,897)
Construction in progress	-	684,830	-	-	684,830
Net property and equipment	<u>87,822</u>	<u>4,871,864</u>	<u>35,474,650</u>	<u>(97,228)</u>	<u>40,337,108</u>
<i>Noncurrent Assets</i>					
Cash - other	-	882,610	4,637,844	-	5,520,454
Investments	234,866	-	-	-	234,866
Real estate held for future use	-	1,214,485	-	-	1,214,485
Mortgage loans receivable - net of reserves	-	2,302	-	-	2,302
Due from related parties	5,128,010	224,873	80,000	(4,470,295)	962,588
Capitalized fees	-	26,504	540,302	-	566,806
Deferred tax asset	-	-	4,006	-	4,006
Investment in subsidiaries	14,855,338	-	-	(14,855,338)	-
Notes receivable and accrued interest - related parties	5,011,629	3,874,760	-	-	8,886,389
Total noncurrent assets	<u>25,229,843</u>	<u>6,225,534</u>	<u>5,262,152</u>	<u>(19,325,633)</u>	<u>17,391,896</u>
Total assets	<u>\$ 29,156,054</u>	<u>\$ 12,022,619</u>	<u>\$ 42,223,890</u>	<u>\$ (20,147,163)</u>	<u>\$ 63,255,400</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Financial Position - *continued***  
**September 30, 2012**

***Liabilities and Net Assets***

	<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	\$ 24,565	\$ 502,719	\$ 130,673	\$ (413,630)	\$ 244,327
Current portion of notes payable	24,161	730,449	223,454	-	978,064
Accrued expenses	78,273	22,217	239,846	-	340,336
Accrued interest	-	12,955	36,701	-	49,656
Prepaid rent	-	1,286	56,785	-	58,071
Deferred management fee	-	-	26,929	-	26,929
Due to related parties	108,588	3,756,471	1,086,607	(4,649,541)	302,125
Funds held in trust	74,299	6,099	158,767	-	239,165
Total current liabilities	<u>309,886</u>	<u>5,032,196</u>	<u>1,959,762</u>	<u>(5,063,171)</u>	<u>2,238,673</u>
<i>Noncurrent liabilities</i>					
Notes payable, net of current portion	569,772	2,761,865	27,993,292	-	31,324,929
Accrued interest	-	77,420.00	3,615,115	-	3,692,535
Losses in excess of investments in partnerships	-	59,304	-	-	59,304
Total noncurrent liabilities	<u>569,772</u>	<u>2,898,589</u>	<u>31,608,407</u>	<u>-</u>	<u>35,076,768</u>
Total liabilities	<u>879,658</u>	<u>7,930,785</u>	<u>33,568,169</u>	<u>(5,063,171)</u>	<u>37,315,441</u>
<i>Net Assets</i>					
Owners' equity	-	209,773	8,655,721	(8,865,494)	-
Unrestricted	26,138,151	3,882,061	-	(6,218,498)	23,801,714
Temporarily restricted	176,510	-	-	-	176,510
Permanently restricted	1,961,735	-	-	-	1,961,735
Total net assets	<u>28,276,396</u>	<u>4,091,834</u>	<u>8,655,721</u>	<u>(15,083,992)</u>	<u>25,939,959</u>
Total liabilities and net assets	<u>\$ 29,156,054</u>	<u>\$ 12,022,619</u>	<u>\$ 42,223,890</u>	<u>\$ (20,147,163)</u>	<u>\$ 63,255,400</u>

**Codman Square Neighborhood Development Corporation and Subsidiaries**  
**Consolidating Schedule of Revenue and Expenses**  
**September 30, 2012**

	<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	\$ 307,145	\$ -	\$ -	\$ -	\$ 307,145
Other	1,141,260	-	-	-	1,141,260
Government grants and contracts	306,303	-	-	-	306,303
Interest on notes receivable - related parties	184,093	79,420	-	(11,557)	251,956
Resident services fees - related parties	204,788	-	-	(128,061)	76,727
Management fees - related parties	139,654	-	-	(97,412)	42,242
Staff cost reimbursements - related parties	761,562	-	-	(184,009)	577,553
Developer fees - related parties	554,985	-	-	(169,459)	385,526
Interest income	8,270	14,947	9,702	-	32,919
Net gain on investments in partnerships	14,519	(130)	-	-	14,389
Gain on sale of real-estate	-	(18,541)	-	239,197	220,656
Rental income	-	73,608	6,233,222	(83,866)	6,222,964
Loss on Insurance proceeds	-	-	(4,982)	-	(4,982)
Forgiveness of debt income	98,640	-	80,000	-	178,640
Other	76,980	4,221	93,387	334,195	508,783
	<u>3,798,199</u>	<u>153,525</u>	<u>6,411,329</u>	<u>(100,972)</u>	<u>10,262,081</u>
<b>Expenses</b>					
Program services					
Real estate development	524,607	197,609	-	(25,199)	697,017
Resident services	637,001	-	-	(28,655)	608,346
Neighborhood stabilization	330,579	45,377	-	(29,069)	346,887
Asset management	124,402	15,485	6,807,017	(234,372)	6,712,532
Economic development	46,144	-	-	(2,175)	43,969
	<u>1,662,733</u>	<u>258,471</u>	<u>6,807,017</u>	<u>(319,470)</u>	<u>8,408,751</u>
Supporting services					
General administrative	243,984	-	-	(9,909)	234,075
Fundraising	10,172	-	-	(227)	9,945
	<u>254,156</u>	<u>-</u>	<u>-</u>	<u>(10,136)</u>	<u>244,020</u>
Total supporting services	254,156	-	-	(10,136)	244,020
Total expenses	<u>1,916,889</u>	<u>258,471</u>	<u>6,807,017</u>	<u>(329,606)</u>	<u>8,652,771</u>
Excess of revenue over expenses from operations	<u>\$ 1,881,310</u>	<u>\$ (104,946)</u>	<u>\$ (395,688)</u>	<u>\$ 228,634</u>	<u>\$ 1,609,310</u>

**SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS**

**Codman Square Neighborhood Development Corporation**  
 Schedule of Expenditures of Federal Awards  
 For The Year Ended September 30, 2012

<i>Federal Grantor (Pass-Through Grantor) Program Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures</i>
<b><i>U.S. Department of Housing and Urban Development</i></b>		
Pass through Department of Neighborhood Development HOME Investment Partnerships Program Grant	14.239	\$ 115,276
Pass through Local Initiatives Support Corporation Section 4 Guarantee Recovery Fund	14.252	<u>43,932</u>
Total U.S. Department of Housing and Urban Development		<u>159,208</u>
<b><i>U.S. Department of Treasury</i></b>		
Pass through NeighborWorks America Neighborhood Reinvestment Corporation		
Restricted Capital Funds	21.000	966,701
Expendable Grant Funds	21.000	<u>102,625</u>
Total U.S. Department of Treasury		<u>1,069,326</u>
Total Federal Financial Assistance		<u><u>\$ 1,228,534</u></u>

**Codman Square Neighborhood Development Corporation**  
Notes to Schedule of Expenditures of Federal Awards  
September 30, 2012

**1. *Basis of Presentation***

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Codman Square Neighborhood Development Corporation (CSNDC) under programs of the Federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of CSNDC.

**2. *Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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 consolidated financial statements of Codman Square Neighborhood Development Corporation (CSNDC) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 6, 2013. 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. The financial statements of CSNDC's thirty wholly owned subsidiaries were not audited in accordance with *Government Auditing Standards*.

#### Internal Control over Financial Reporting

Management of CSNDC is responsible for establishing and maintaining effective 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 the 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting 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*

*March 6, 2013*

**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's (CSNDC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on CSNDC's major federal program for the year ended September 30, 2012. 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, 2012.

### *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*

*March 6, 2013*

**SCHEDULE OF  
FINDINGS AND QUESTIONED COSTS**

**Codman Square Neighborhood Development Corporation**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2012

**A. Summary of Audit Results**

*Financial Statements*

Type of auditor's report issued - Unqualified

*Internal control over financial reporting:*

- Material weaknesses identified? \_\_\_\_\_ yes          X     no

- Significant deficiency identified that is not considered to be material weaknesses? \_\_\_\_\_ yes          X     no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes          X     no

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified? \_\_\_\_\_ yes          X     no

- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes          X     no

Type of auditor's report issued on compliance for major programs - Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes          X     no

Identification of major programs: (Elder Cluster)

CFDA Number	Name of Program or Cluster
21.000	<i>Neighbor Works</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes          X     no

**Codman Square Neighborhood Development Corporation**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2012

**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, 2011.