

**Codman Square Neighborhood Development
Corporation And Subsidiaries**

Consolidated Financial Statements
and
Auditors' Report

September 30, 2013 with Comparative Totals for 2012

**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

Independent Auditors' Report

We have audited the accompanying consolidated financial statements of Codman Square Neighborhood Development Corporation (a non-profit corporation) and subsidiaries (CSNDC), which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CSNDC's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CSNDC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Codman Square Neighborhood Development Corporation and subsidiaries as of September 30, 2013, and the changes their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Codman Square Neighborhood Development Corporation and subsidiaries' 2012 consolidated financial statements, and our report dated March 6, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidating financial schedules as a whole. The *Schedule of Financial Position – Neighborhood Reinvestment Capital Fund, Consolidating Schedule of Financial Position and Consolidated Schedule of Activities* on pages 32 through 35 are presented for purposes of additional analysis and 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Daniel Dennis & Company LLP

January 24, 2014

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Financial Position
September 30, 2013
With Comparative Totals for 2012

<i>Assets</i>		
	<i>2013</i>	<i>2012</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 3,166,036	\$ 3,355,555
Funds held in trust	294,396	186,393
Accounts receivable:		
Grants and contracts	159,440	176,239
Other - net of reserves	161,339	116,546
Restricted cash	545,483	826,505
Deposits	-	1,500
Short-term investments	575,063	574,732
Mortgage loans receivable - net of reserves	1,195	1,293
Prepaid expenses	<u>100,243</u>	<u>108,887</u>
Total current assets	<u>5,003,195</u>	<u>5,347,650</u>
 <i>Property and Equipment</i>		
Land	2,590,835	2,485,412
Buildings and improvements	58,888,749	59,053,096
Office equipment and furniture	<u>3,152,301</u>	<u>3,309,667</u>
	64,631,885	64,848,175
Less accumulated depreciation	(26,987,627)	(25,195,897)
Construction in progress	<u>69,178</u>	<u>-</u>
Net property and equipment	<u>37,713,436</u>	<u>39,652,278</u>
 <i>Noncurrent Assets</i>		
Restricted cash	812,051	475,000
Cash - other	4,846,484	5,094,252
Investments	748,232	234,866
Real estate held for future use	3,148,380	1,899,315
Mortgage loans receivable	6,024	2,302
Due from related parties	2,296,767	1,093,536
Capitalized fees, net	575,874	566,806
Deferred tax asset	-	4,006
Notes receivable and accrued interest - related parties - net of reserves	<u>9,325,716</u>	<u>8,885,389</u>
Total noncurrent assets	<u>21,759,528</u>	<u>18,255,472</u>
Total assets	<u>\$ 64,476,159</u>	<u>\$ 63,255,400</u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Financial Position - *Continued*
September 30, 2013
With Comparative Totals for 2012

	2013	2012
<i>Current Liabilities</i>		
Accounts payable	\$ 326,207	\$ 303,631
Current portion of notes payable	2,819,366	978,064
Accrued expenses	359,018	340,336
Accrued interest	93,436	49,656
Prepaid rent	87,398	58,071
Deferred management fee	-	26,929
Due to related parties	307,790	302,125
Funds held in trust	<u>297,873</u>	<u>239,165</u>
Total current liabilities	<u>4,291,088</u>	<u>2,297,977</u>
<i>Noncurrent liabilities</i>		
Notes payable, net of current portion	29,207,701	31,324,929
Accrued interest	<u>3,783,523</u>	<u>3,692,535</u>
Total noncurrent liabilities	<u>32,991,224</u>	<u>35,017,464</u>
Total liabilities	<u>37,282,312</u>	<u>37,315,441</u>
<i>Net Assets</i>		
Unrestricted	25,034,326	23,801,714
Temporarily restricted	176,510	176,510
Permanently restricted	<u>1,983,011</u>	<u>1,961,735</u>
Total net assets	<u>27,193,847</u>	<u>25,939,959</u>
Total liabilities and net assets	<u>\$ 64,476,159</u>	<u>\$ 63,255,400</u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries

Consolidated Statement of Activities For the Year Ended September 30, 2013 With Summarized Comparative Totals for 2012

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2013 Total</i>	<i>2012 Total</i>
Revenue and Support					
Contributions:					
Neighborhood reinvestment	\$ 169,750	\$ -	\$ 200,000	\$ 369,750	\$ 307,145
Other	853,224	-	-	853,224	1,141,260
Government grants and contracts	299,997	-	-	299,997	306,303
Interest on notes receivable - related parties	307,094	-	-	307,094	251,956
Resident services fees - related parties	54,000	-	-	54,000	76,727
Management fees - related parties	85,866	-	-	85,866	42,242
Staff cost reimbursements - related parties	595,560	-	-	595,560	577,553
Developer fees - related parties	657,721	-	-	657,721	385,526
Interest income	10,816	-	-	10,816	32,919
Net (loss)/gain on investments in partnerships	(49,573)	-	-	(49,573)	14,389
Gain on sale of real-estate	-	-	-	-	220,656
Rental income	6,002,899	-	-	6,002,899	6,222,964
Loss on insurance claim	-	-	-	-	(4,982)
Forgiveness of debt income	334,195	-	-	334,195	178,640
Other	459,168	-	-	459,168	508,783
Net assets released from restriction	178,724	-	(178,724)	-	-
Total revenue and support	9,959,441	-	21,276	9,980,717	10,262,081
Expenses					
Program services					
Real estate development	1,014,084	-	-	1,014,084	697,017
Resident services	633,785	-	-	633,785	608,346
Neighborhood stabilization	404,856	-	-	404,856	346,887
Asset management	6,337,561	-	-	6,337,561	6,712,532
Economic development	41,910	-	-	41,910	43,969
Total program services	8,432,196	-	-	8,432,196	8,408,751
Supporting services					
General administrative	285,477	-	-	285,477	234,075
Fundraising	9,156	-	-	9,156	9,945
Total supporting services	294,633	-	-	294,633	244,020
Total expenses	8,726,829	-	-	8,726,829	8,652,771
Excess of revenue over expenses from operations	1,232,612	-	21,276	1,253,888	1,609,310
Unusual item					
Purchase of an affiliate	-	-	-	-	3,484,440
Change in net assets	1,232,612	-	21,276	1,253,888	5,093,750
Net assets, beginning of year	23,801,714	176,510	1,961,735	25,939,959	20,846,209
Net assets, end of year	\$ 25,034,326	\$ 176,510	\$ 1,983,011	\$ 27,193,847	\$ 25,939,959

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2013
With Summarized Comparative Totals for 2012

	<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>2013 Total</i>	<i>2012 Total</i>
Salaries	\$ 342,724	\$ 401,785	\$ 237,628	\$ 588,798	\$ 29,928	\$ 1,600,863	\$ 198,136	\$ 2,884	\$ 1,801,883	\$ 1,770,104
Employee benefits	48,477	56,889	33,646	86,252	4,238	229,502	28,055	408	257,965	278,130
Payroll taxes	32,471	38,141	22,558	53,745	2,841	149,756	18,809	274	168,839	169,629
Total salaries and related expenses	<u>423,672</u>	<u>496,815</u>	<u>293,832</u>	<u>728,795</u>	<u>37,007</u>	<u>1,980,121</u>	<u>245,000</u>	<u>3,566</u>	<u>2,228,687</u>	<u>2,217,863</u>
Professional fees	21,176	8,505	17,881	134,483	633	182,678	4,195	61	186,934	157,526
Consulting fees	10,472	12,590	7,446	2,504	938	33,950	6,209	5,090	45,249	61,500
Program expenses	7,677	68,639	5,503	54,705	549	137,073	4,434	65	141,572	52,243
Travel, conferences and meetings	12,876	17,896	10,311	7,223	757	49,063	8,978	131	58,172	86,046
Rental expense	9,425	-	-	-	-	9,425	-	-	9,425	-
Telephone	4,991	4,003	2,908	33,067	285	45,254	2,105	31	47,390	61,363
Utilities	18,672	2,276	6,682	896,489	170	924,289	1,123	16	925,428	1,012,555
Postage and delivery	235	-	-	2,619	-	2,854	-	-	2,854	4,504
Advertising	-	-	-	-	-	-	-	-	-	11,801
Office expense	11,106	13,985	12,645	38,256	892	76,884	7,703	113	84,700	86,203
Insurance	9,140	3,281	2,767	140,300	245	155,733	1,619	24	157,376	160,506
Temporary personnel	128	153	91	30	11	413	76	1	490	700
Interest expense	113,452	13	9,219	765,849	4	888,537	1,262	18	889,817	1,126,869
Contracted services	20,865	-	1,056	481,683	-	503,604	-	-	503,604	634,862
Repairs and maintenance	4,660	1,788	4,717	165,699	132	176,996	880	13	177,889	157,606
Real estate taxes	45,636	-	3,638	468,407	-	517,681	-	-	517,681	589,548
Taxes and fees	5,144	167	555	6,417	13	12,296	81	1	12,378	18,277
Bad debt	-	-	2,503	272,514	-	275,017	-	-	275,017	46,431
Depreciation and amortization	83,658	3,674	19,726	1,558,875	274	1,666,207	1,812	26	1,668,045	1,773,026
Loss on investment in real-estate	191,344	-	-	-	-	191,344	-	-	191,344	20,417
Management fees	-	-	-	336,062	-	336,062	-	-	336,062	313,120
Miscellaneous	19,755	-	3,376	243,584	-	266,715	-	-	266,715	59,805
Total expenses	<u>\$ 1,014,084</u>	<u>\$ 633,785</u>	<u>\$ 404,856</u>	<u>\$ 6,337,561</u>	<u>\$ 41,910</u>	<u>\$ 8,432,196</u>	<u>\$ 285,477</u>	<u>\$ 9,156</u>	<u>\$ 8,726,829</u>	<u>\$ 8,652,771</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, 2013
With Comparative Totals for 2012

	2013	2012
<i>Cash Flows From Operating Activities:</i>		
Change in net assets	\$ 1,253,888	\$ 5,093,750
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,668,045	1,773,026
Loss on the transfer of real-estate	-	20,417
Bad debt expense	275,017	46,431
Discount on notes receivable	-	210,595
Debt forgiveness income	(334,915)	(898,529)
Accrued interest income	307,094	251,956
Affects of purchase of an affiliate	-	(3,484,440)
Net (gain)/loss on investments in partnerships	49,573	(14,389)
(Increase)/decrease in operating assets:		
Accounts receivable	16,799	145,344
Deposits	1,500	3,500
Deferred tax asset	4,006	10,463
Grant and contracts receivable	16,799	77,677
Mortgage loans receivable	5,246	(6,050)
Prepaid expenses	8,644	(26,849)
Increase/(decrease) in operating liabilities:		
Accounts payable	(63,407)	(242,874)
Accrued expenses	12,332	218,241
Deferred revenue	-	(87,881)
Accrued interest	114,254	91,810
Prepaid rent	18,930	-
Funds held in trust	(55,531)	4,419
Net cash provided by operating activities	<u>3,298,274</u>	<u>3,186,617</u>
<i>Cash flows from investing activities:</i>		
Decrease/(increase) in cash - other	191,739	(949,261)
Increase in investments - other	(572,601)	(317,628)
(Increase)/decrease in amounts due from related parties	(1,456,602)	1,147,410
Increase in related party notes receivable	(330,834)	(1,830,580)
Sale of land	-	179,200
Purchase of land	(67,420)	(103,800)
Payments for capitalized costs	(269,380)	(312,249)
Payments for property and equipment	(644,510)	(570,893)
Net cash used by investing activities	<u>(3,149,608)</u>	<u>(2,757,801)</u>
<i>Cash flows from financing activities:</i>		
Proceeds from notes payable	1,210,716	1,517,266
Payment of financing fees	(37,538)	(26,953)
Repayment of notes payable	(1,511,363)	(1,839,174)
Net cash used by financing activities	<u>(338,185)</u>	<u>(348,861)</u>
Net change in cash	<u>(189,519)</u>	<u>79,955</u>
Cash, beginning of year	<u>3,355,555</u>	<u>3,275,600</u>
Cash, at end of year	<u>\$ 3,166,036</u>	<u>\$ 3,355,555</u>
<i>Supplementary Disclosure of Cash Flow Information</i>		
Cash paid during the year for interest	<u>\$ 848,239</u>	<u>\$ 998,363</u>
Cash paid during the year for income taxes	<u>\$ 11,856</u>	<u>\$ 9,119</u>

See accompanying notes to financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2013

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, 2013

2. *Summary of Significant Account Policies – Continued*

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-five subsidiaries, all of which are wholly owned. These subsidiaries are: Codman Square Apartments, Inc. (CSA), which owns 1% of Codman Square Limited Partnership; Norfolk Terrace Corporation (NTC), which owns 1% of Norfolk Terrace Limited Partnership; Erie Ellington Homes, Inc. (EEH), which owns 0.01% of Erie Ellington 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; 766 Washington Associates, Inc. (766WIA), which owns 50% of 766 Washington Associates; 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; Talbot Bernard Corporation (TBC), which owns 0.01% of Talbot Bernard Housing, LLC; New Lithgow Holdings LLC (LHLLC), which owns 1% of New Lithgow Residential LLC; Lithgow Inc. (LI), which owns 1% of Lithgow Commercial LLC; 241 Talbot Corporation (241Corp), which owns .01% of 241 Talbot LLC; 157 Washington Street Managing Member (157WS), which owns .01% of 157 Washington Street AB&W LLC; New CSA Manager LLC (NCSA), which owns .01% of New Codman Square Apartments LLC; NDC Holding Company, Inc. (NDCH), which holds property held for future use; On the Square, Inc. (OTS), which was organized to lease commercial property;

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

Principals of Consolidation – Continued

Codman Square Rehab, Inc. (CSR), which was organized to purchase, rehabilitate, and resell one-to four unit residential properties; Codman Square Housing Services, Inc. (CSHS), which was organized to provide various housing related services to area residents; Four Corners Plaza, LLC (FCP), which was organized to purchase and rehabilitate commercial property; Girls Latin Academy, LLC (GLA), which was organized to purchase, rehabilitate and rent residential real estate; Lithgow Commercial Limited Partnership (LCLP) which was organized to lease commercial property; Lithgow Residential Limited Partnership (LRLP) which was organized to support New Lithgow Residential LLC; Codman Community Development, Inc. (CCDI), which was organized to support the charitable purposes of CSNDC and owns 99% of Codman Square Limited Partnership; Codman Square Limited Partnership (CSLP) which was organized to support New Codman Square Apartments LLC; Girls Latin Lessor, which was organized to lease residential property; 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) which was organized to acquire and develop residential and commercial property; Whittier Place LLC (WPLLC) which was organized to acquire and develop residential property; 157 Washington Rental Commercial LLC (157WRC) which was organized to lease commercial property; Talbot Commons II LLC (TCII) which was organized to acquire and develop residential and commercial property; Girls Latin Academy Corporation (GLAC) which is the non-managing member of Girls Latin Academy, LLC; 157 Washington Rental LLC (157WR) which was organized to lease residential property; CSNDC Holdings LLC (CSNDCH) which was organized to acquire and develop residential property.

NTC, CSA, WCA, WC2A, LAI, LCI, LI, EEH, 241Corp, 157WS, TBC and NCSA 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-five 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-five wholly owned entities listed above have been consolidated and all significant intercompany accounts and transactions have been eliminated.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

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.

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 and restricted reserves are not considered cash or cash equivalents for financial statement purposes. At September 30, 2013 CSNDC did not hold any cash equivalents.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

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

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, 2013, 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.

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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

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 and LLCs. 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. Subsidiaries' investment in the partnership's and LLC's totaled \$510,199 and \$0 as of September 30, 2013 and 2012, respectively.

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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

Fair Value Measurements – Continued

- 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.
- 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, 2013, 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

2. *Summary of Significant Account Policies – Continued*

Income Taxes – Continued

Regarding CSNDC's partnership and LLC subsidiaries, no provision has been made for Federal or state income taxes since each partner or member includes its pro-rata share of net income or loss in its return.

CSNDC evaluates tax positions taken or expected to be taken in its tax returns and in its subsidiaries' tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. At September 30, 2013, CSNDC believes that it has no uncertain tax positions within its open tax returns and within any of its subsidiaries' open tax returns. The 2010 through 2012 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.

Reclassifications

Certain amounts in fiscal year 2012 have been reclassified to conform with the fiscal year 2013 presentation.

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, 2012, from which the summarized information was derived.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

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, 2013 and 2012:

The balance includes a development fee receivable and accrued interest due from Talbot Bernard Housing LLC totaling \$245,080 and \$256,995 for the years ending September 30, 2013 and 2012, 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 \$13,359 and \$12,699 was accrued in fiscal year 2013 and 2012, respectively.

The balance also includes notes receivable from Talbot Bernard Housing LLC totaling \$963,000. These notes bear interest at 5% and are due October 2032. Accrued interest at September 30, 2013 and 2012 was \$671,124 and \$593,311, respectively. Interest of \$77,813 and \$74,110 was recognized in fiscal years 2013 and 2012, 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 \$622,394 and \$603,830 at December 31, 2013 and 2012, respectively, using a discount rate of 5%. Interest of \$18,564 and \$17,133 was recognized in fiscal years 2013 and 2012, 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, 2013 and 2012 was \$291,925 and \$225,796, respectively. Principal and interest are due September 2038. Interest of \$66,129 and \$61,803 was recognized in fiscal years 2013 and 2012, 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 also includes a note receivable from New Codman Square Apartments LLC of \$217,750 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.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

3. Related Party Transactions – Continued

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, 2013 and 2012 was \$678,009 and \$710,262, respectively. Accrued interest at September 30, 2013 and 2012 was \$2401 and \$0, respectively. Interest of \$2,401 and \$0 was recognized in fiscal years 2013 and 2012, 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 value of the note at September 30, 2013 and 2012 was \$195,891 and \$168,877, 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 value of the note at September 30, 2013 and 2012 was \$561,224 and \$377,143, 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. Accrued interest at September 30, 2013 and 2012 was \$135,428 and \$26,935, respectively. Interest of \$108,493 and \$26,935 was recognized in fiscal years 2013 and 2012, respectively.

The following balances are fully reserved at September 30, 2013 and 2012:

Advances to Related Parties with No Stated Interest Rates

	2013	2012
Codman Square Limited Partnership	\$ -	\$ 345,137
Girls Latin Academy II LLC	\$ 471,838	\$ 471,838
526 Park Street, Inc.	\$ 53,073	\$ 53,073

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

3. Related Party Transactions – Continued

The following balances are fully reserved at September 30, 2013 and 2012:

<i>Notes Receivable and Accrued Interest Receivable</i>	<i>2013</i>	<i>2012</i>
Due from Erie Ellington LP for the development of residential property in 1999. The note was funded with a grant to CSNDC from Federal Home Loan Bank of Boston, and bears no interest. Principal is due September 2019.	\$ 287,206	\$ 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	\$ 1,158,836

Other Amounts Due From – Related Parties

	<i>2013</i>	<i>2012</i>
241 Talbot LLC	\$ 132,488	\$ 98,397
157 AB&W LLC	665,076	630,333
New Lithgow Residential LP	216,315	287,837
Talbot Bernard Housing, LLC	48,520	53,698
New Codman Square Apartments LLC	1,222,530	1,000
Girls Latin Academy II LLC	1,031	2,071
Erie Ellington LP	10,699	16,768
538 Talbot Avenue, Inc	19	19
526 Park Street, Inc.	89	89
766 Washington LP	-	2,978
Girls Latin Corp	-	346
Total	\$ 2,296,767	\$ 1,093,536

Income from Related Parties

For the year ended September 30, 2013 and 2012, 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

3. *Related Party Transactions – Continued*

Staff Costs Reimbursement Fees

During fiscal year 2013 CSNDC earned staff costs reimbursement fee income of \$16,535 from 157 Washington AB&W LLC and \$579,025 from New Codman Square Apartments LLC. 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.

Management Fees

During fiscal year 2013 and 2012 management fees earned by CSNDC were \$85,866 and \$42,242, respectively.

Developer Fees

During fiscal year 2013 CSNDC earned developer fee income of \$15,553 from 157 Washington AB&W LLC and \$642,168 from New Codman Square Apartments LLC. During fiscal year 2012 CSNDC earned developer fee income of \$385,526 from 157 Washington AB&W LLC

Resident Service Fees

During fiscal year 2013 CSNDC earned resident service fees of \$54,000 from Erie Ellington LP, 157 Washington AB&W LLC, 241 Talbot LLC and Talbot Bernard LLC for services provided to residents. During fiscal year 2012 CSNDC earned resident service fees of \$76,727 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 2013 and 2012:

<i>2013</i>	<i>Total</i>	<i>Reserve</i>	<i>Net</i>
Accounts receivable - other	\$ 161,339	\$ -	\$ 161,339
Mortgage loans receivable	\$ 50,932	\$ (43,713)	\$ 7,219
Notes receivable - related parties	\$ 11,296,669	\$ (1,970,953)	\$ 9,325,716
<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	\$ 11,184,880	\$ (2,299,491)	\$ 8,885,389

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

5. *Restricted Cash*

CSNDC has cash received from NRC, DHCD and MHIC which is restricted for development and CSNDC has cash restricted as collateral for the New Codman Square Apartments LLC. The balance at September 30, 2013 and 2012 is as follows:

	2013	2012
Cash restricted for development	\$ 882,534	\$ 826,505
Cash restricted for collateral	<u>475,000</u>	<u>475,000</u>
Total	<u>\$ 1,357,534</u>	<u>\$ 1,301,505</u>

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, 2013 and 2012 was \$813,096 and \$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 2013.

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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

9. Construction in Process – Continued

The balance consists of the following:

	2013	2012
Codman Square Rehab, Inc.	<u>\$ 69,178</u>	<u>\$ -</u>
Total	<u><u>\$ 69,178</u></u>	<u><u>\$ -</u></u>

10. Notes Payable

Notes payable consist of the following:

<i>CSNDC</i>	2013	2012
A loan from Community Economic Development Assistance Corporation (CEDAC) passed through to Whittier Place. The note bears interest at 7% per annum. Repayment is due upon the closing of permanent financing for the related property. As of September 30, 2013 and 2012 accrued interest was \$17,753 and \$10,656, respectively.	\$ 234,406	\$ 234,406
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, 2013 and 2012 accrued interest was \$28,846 and \$15,900, respectively.	193,300	174,633
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
The Corporation acquired a predevelopment note payable from CEDAC, providing for a maximum loan amount of \$200,000. The note bears interest at 7% per annum and is secured by the Franklin Field South III Project. Repayment is due upon securing construction financing. Interest accrued and capitalized as of September 30, 2013 and 2012 was \$59,445 and \$50,166, respectively.	130,733	130,733
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, 2013.	30,000	30,000

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

10. Notes Payable- Continued

<i>Codman Square Rehab, Inc.</i>	2013	2012
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.	25,500	25,500
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.	163,736	165,978
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.	495,901	495,901
The Corporation has a note payable to Massachusetts Housing Investment Corporation (MHIC), as part of the revolving loan fund. As of September 30, 2013 and 2012 the outstanding balance was \$246,655 and \$0, respectively and accrued interest was \$5,311 and 0, respectively. The interest rate is 6% per annum and the loan is secured by the 422 Seavers Street property. Repayment is due in full in May 2014.	246,655	-
<i>Talbot Station I LLC (TS LLC)</i>		
TS LLC has a note payable to LISC, providing for a maximum loan amount of \$1,147,986. The note has an interest rate of 5% per annum. Repayment is due on the earlier of the date of closing on any portion of the construction financing or August 1, 2014. As of September 30, 2013 and 2012 accrued interest was \$5,500 and \$5,500, respectively	1,147,986	1,147,986
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 February 28, 2014. As of September 30, 2013 and 2012 accrued interest was \$0 and \$2,300. The note is guaranteed by CSDNC.	200,000	200,000

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

10. Notes Payable- Continued

<i>Whittier Place LLC (WP LLC)</i>	<i>2013</i>	<i>2012</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 May 16, 2014. The note is guaranteed by CSDNC. As of September 30, 2013 and 2012 accrued interest was \$10,241 and \$10,112, 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, 2013 and 2012 accrued interest was \$596 and \$1,242, respectively.</p>	110,000	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 May 1, 2014. As of September 30, 2013 and 2012 accrued interest was \$715 and \$0, respectively.</p>	95,277	93,158
<p>The Corporation has a note payable to Citizens Bank in the original 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 August 21, 2015.</p>	236,891	637,291
<p>WP LLC has a note payable to Life Insurance Community Initiative, Inc., providing for a maximum loan amount of \$432,000. The note has an interest rate of 5% per annum and quarterly payments of interest only are due and payable starting on September 1, 2013. The loan is secured by the land and improvements thereon located at 4-6 Lyndhurst Street. Repayment is due on April 30, 2016. The note is guaranteed by CSDNC. As of September 30, 2013 and 2012 accrued interest was \$5,998 and \$0, respectively.</p>	432,000	-
<p><i>On The Square, Inc.</i></p> <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. During fiscal year 2013 the note was repaid through a refinancing of the project.</p>	-	825,567

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

10. Notes Payable- Continued

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 bore interest at 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. During fiscal year 2013 the note was repaid through a refinancing of the project.

	2013	2012
	-	93,407

The Corporation has a note payable to Eastern Bank, secured by the property and the assignment of rents and leases, with fixed interest at 4.07%. Monthly payments of principal and interest, currently \$4,528, are based on a thirty year amortization schedule. The unpaid balance of principal and interest is due February 2023. Accrued interest at September 30, 2013 and 2012 was \$5,155 and \$0, respectively.

	924,586	-
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Rental Real-estate

CSNDC's rental real-estate subsidiaries have entered into various mortgages and other notes payable in connection with the acquisition, renovation and/or construction of affordable housing. The original balances of the mortgages and other notes payable were \$29,566,103. The mortgages and notes payable have interest rates between zero and 6.0%. Of the total balances outstanding, one third require monthly payments of principal and interest which totaled \$64,287, one third require payments based on surplus cash, and one third will be payable upon maturity. The maturity dates of the mortgages and notes payable range from August 15, 2015 to August 14, 2056. Accrued interest as of September 30, 2013 and 2012 was \$3,737,290 and \$3,646,315 respectively.

	<u>26,719,435</u>	<u>27,297,772</u>
Total	32,027,067	32,302,993
Less current portion	<u>2,819,366</u>	<u>978,064</u>
Notes payable, net of current portion	<u>\$ 29,207,701</u>	<u>\$ 31,324,929</u>

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

2014	\$	2,819,366
2015		2,335,578
2016		673,622
2017		279,760
2018		267,670
Thereafter		<u>25,651,071</u>
Total	\$	<u>32,027,067</u>

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

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, 2013 and 2012 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 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, 2013 and 2012:

	<i>2013</i>	<i>2012</i>
Advanced to subsidiaries to finance development costs	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Total	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Permanently and temporarily restricted net assets consist of grants received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund from 1996 through 2013:

	<i>2013</i>	<i>2012</i>
Cash and Cash equivalents	\$ 748,360	\$ 161,250
Real-estate development	1,372,469	1,601,995
Mortgage to qualified homeowners	<u>38,692</u>	<u>375,000</u>
Total permanently and temporarily restricted net assets	<u>\$ 2,159,521</u>	<u>\$ 2,138,245</u>

During fiscal year 2013 the Neighborhood Reinvestment Corporation (NRC) allowed CSNDC to release \$178,724 of permanently restricted Revolving Loan funds into the unrestricted net assets. Additionally, during fiscal year 2012 NRC allowed CSNDC to release \$176,510 of permanently restricted Revolving Loan funds into temporarily restricted net assets for purpose of establishing a loan reserve fund.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

13. Commercial Leases

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

2014	\$	192,828
2015	\$	182,907
2016	\$	129,087
2017	\$	87,027
2018	\$	13,985

14. Income Taxes

As of September 30, 2013, CSNDC's for-profit subsidiaries had net operating loss carryforwards totaling approximately \$961,295. These net operating loss carryforwards will expire at various times between 2013 and 2028. It is unclear if CSNDC will realize value from these loss carryforwards; accordingly a related tax deferred asset has not been recorded.

15. Conditional Promises to Give

Conditional promises to give consist of conditional grant awards to support CSNDC's programs. At September 30, 2013 conditional promises to give totaled \$113,509. 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

16. *Concentrations – Continued*

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.

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, 2013 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	95,277	4,723
Total	<u>\$ 827,000</u>	<u>\$ 534,804</u>	<u>\$ 292,196</u>

Historic Tax Credits

CSNDC has entered into an agreement to sell the Commonwealth of Massachusetts historic tax credits relating to New Codman Square Apartments, LLC to a third party. The proceeds from the sale, which are expected to be \$756,000, will be loaned to New Codman Square Apartments, LLC to finance the rehabilitation of the building.

18. *Joint Venture*

During 2012 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 \$38,338 and \$53,437 at September 30, 2013 and 2012, respectively. Additionally, during fiscal year 2012 CSNDC guaranteed a loan from CEDAC to SWBCDC in the amount of \$141,327 and \$400,000 at September 30, 2013 and 2012, respectively.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

September 30, 2013

19. *Real Estate held for Future Use*

NDCH, FCP, TSLLC, CSR and WPLLC hold title to properties in the Codman Square area for the purpose of future sale or development. Management expects to recover the costs of the properties upon disposition.

20. *Guarantees*

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

<u>Borrower</u>	<u>Lender</u>	<u>Balance at September 30, 2013</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 2013.

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, 2013, 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.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

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 Properties 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.

23. Master Lease

During fiscal year 2013 157 Commercial LLC entered into a master lease agreement with 157 Washington Street AB&W LLC, a related party for a term of fifteen (15) years. The rental expense is being recognized on a straight-line basis over the life of the lease. The rental expense for the years ended September 30, 2013 and 2012 was \$9,425 and \$0, respectively of which \$9,425 and \$0 were payable as of September 30, 2013 and 2012. Additionally, 157 Commercial LLC is responsible for the operating expenses. The minimum payments due for the remaining term of the lease are as follows:

2014	\$	1,499
2015	\$	1,544
2016	\$	1,590
2017	\$	10,000
2018	\$	10,300
Thereafter	\$	114,988

24. 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.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
September 30, 2013

24. Unusual Item – Continued

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>

25. Consolidation

For financial reporting purposes, the financial position and activities of CSNDC and its thirty-five 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>\$ 30,549,892</u>	<u>\$ 57,610,061</u>	<u>\$ (23,683,794)</u>	<u>\$ 64,476,159</u>
Liabilities	\$ 962,013	\$ 41,115,808	\$ (4,795,509)	\$ 37,282,312
Net assets / equity	<u>29,587,879</u>	<u>16,494,253</u>	<u>(18,888,285)</u>	<u>27,193,847</u>
Total liabilities and net assets	<u>\$ 30,549,892</u>	<u>\$ 57,610,061</u>	<u>\$ (23,683,794)</u>	<u>\$ 64,476,159</u>
Revenues	\$ 3,550,610	\$ 11,013,444	\$ (4,583,337)	\$ 9,980,717
Expenses	<u>2,233,827</u>	<u>6,806,081</u>	<u>(313,079)</u>	<u>8,726,829</u>
Change in net assets	<u>\$ 1,316,783</u>	<u>\$ 4,207,363</u>	<u>\$ (4,270,258)</u>	<u>\$ 1,253,888</u>

26. Subsequent Events

CSNDC has evaluated subsequent events through January 24, 2014, 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, 2013

Assets

Cash and cash equivalents	\$ 748,360
Real-estate development	1,372,469
Mortgages to qualified homeowners	<u>38,692</u>
Total Assets	<u><u>\$ 2,159,521</u></u>

Liabilities and Net Assets

Net assets

Temporarily restricted	\$ 176,510
CFRAH-Fund	374,500
Permanently restricted	<u>1,608,511</u>
Total net assets	<u>2,159,521</u>
Total liabilities and net assets	<u><u>\$ 2,159,521</u></u>

Schedule of Activities – Neighborhood Reinvestment Capital Fund
For the Year Ended September 30, 2013

Revenue and support

Capital Grant - Neighborhood reinvestment	\$ 200,000
Release from restriction	<u>(178,724)</u>
Change in net assets	21,276
Net assets, beginning of year	<u>2,138,245</u>
Net assets, end of year	<u><u>\$ 2,159,521</u></u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Financial Position
September 30, 2013

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	\$ 1,656,621	\$ 372,405	\$ 1,137,010	\$ -	\$ 3,166,036
Funds held in trust	129,131	8,281	156,984	-	294,396
Accounts receivable:					
Grants and contracts	159,440	-	-	-	159,440
Other	52,479	9,356	99,504	-	161,339
Restricted cash	415,952	129,531	-	-	545,483
Short-term investments	261,738	313,325	-	-	575,063
Mortgage loans receivable - net of reserves	-	1,195	-	-	1,195
Prepaid expenses	12,604	795	86,844	-	100,243
Total current assets	<u>2,687,965</u>	<u>834,888</u>	<u>1,480,342</u>	<u>-</u>	<u>5,003,195</u>
<i>Property and Equipment</i>					
Land	-	1,363,068	1,227,767	-	2,590,835
Buildings and improvements	152,999	2,010,897	56,824,575	(99,722)	58,888,749
Office equipment and furniture	100,513	-	3,051,788	-	3,152,301
	253,512	3,373,965	61,104,130	(99,722)	64,631,885
Less accumulated depreciation	(174,000)	(58,441)	(26,761,001)	5,815	(26,987,627)
Construction in progress	-	69,178	-	-	69,178
Net property and equipment	<u>79,512</u>	<u>3,384,702</u>	<u>34,343,129</u>	<u>(93,907)</u>	<u>37,713,436</u>
<i>Noncurrent Assets</i>					
Restricted cash	475,000	337,051	-	-	812,051
Cash - other	-	-	4,846,484	-	4,846,484
Investments	238,033	510,199	-	-	748,232
Real estate held for future use	-	3,148,380	-	-	3,148,380
Mortgage loans receivable	-	6,024	-	-	6,024
Due from related parties	6,875,617	-	216,315	(4,795,165)	2,296,767
Capitalized fees	-	25,605	550,269	-	575,874
Investment in subsidiaries	14,851,302	3,943,420	-	(18,794,722)	-
Notes receivable and accrued interest - related parties	5,342,463	-	3,983,253	-	9,325,716
Total noncurrent assets	<u>27,782,415</u>	<u>7,970,679</u>	<u>9,596,321</u>	<u>(23,589,887)</u>	<u>21,759,528</u>
Total assets	<u>\$ 30,549,892</u>	<u>\$ 12,190,269</u>	<u>\$ 45,419,792</u>	<u>\$ (23,683,794)</u>	<u>\$ 64,476,159</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Financial Position - *continued*
September 30, 2013

	<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	\$ 13,535	\$ 249,862	\$ 62,810	\$ -	\$ 326,207
Current portion of notes payable	288,567	2,308,814	221,985	-	2,819,366
Accrued expenses	76,862	15,930	266,226	-	359,018
Accrued interest	-	74,960	18,476	-	93,436
Prepaid rent	-	9,970	77,428	-	87,398
Due to related parties	112,798	4,076,576	913,925	(4,795,509)	307,790
Funds held in trust	146,219	8,663	142,991	-	297,873
	<u>637,981</u>	<u>6,744,775</u>	<u>1,703,841</u>	<u>(4,795,509)</u>	<u>4,291,088</u>
<i>Noncurrent liabilities</i>					
Notes payable, net of current portion	324,032	1,461,633	27,422,036	-	29,207,701
Accrued interest	-	59,445	3,724,078	-	3,783,523
	<u>324,032</u>	<u>1,521,078</u>	<u>31,146,114</u>	<u>-</u>	<u>32,991,224</u>
Total noncurrent liabilities	<u>324,032</u>	<u>1,521,078</u>	<u>31,146,114</u>	<u>-</u>	<u>32,991,224</u>
Total liabilities	<u>962,013</u>	<u>8,265,853</u>	<u>32,849,955</u>	<u>(4,795,509)</u>	<u>37,282,312</u>
<i>Net Assets</i>					
Owners' equity	-	3,924,416	12,569,837	(16,494,253)	-
Unrestricted	27,428,358	-	-	(2,394,032)	25,034,326
Temporarily restricted	176,510	-	-	-	176,510
Permanently restricted	1,983,011	-	-	-	1,983,011
	<u>29,587,879</u>	<u>3,924,416</u>	<u>12,569,837</u>	<u>(18,888,285)</u>	<u>27,193,847</u>
Total net assets	<u>29,587,879</u>	<u>3,924,416</u>	<u>12,569,837</u>	<u>(18,888,285)</u>	<u>27,193,847</u>
Total liabilities and net assets	<u>\$ 30,549,892</u>	<u>\$ 12,190,269</u>	<u>\$ 45,419,792</u>	<u>\$ (23,683,794)</u>	<u>\$ 64,476,159</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Revenue and Expenses
September 30, 2013

	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
Revenue and Support					
Contributions:					
Neighborhood reinvestment	\$ 369,750	\$ -	\$ -	\$ -	\$ 369,750
Other	853,224	4,058,421	-	(4,058,421)	853,224
Government grants and contracts	299,997	-	-	-	299,997
Interest on notes receivable - related parties	189,259	18,385	108,493	(9,043)	307,094
Resident services fees - related parties	172,900	-	-	(118,900)	54,000
Management fees - related parties	183,061	-	-	(97,195)	85,866
Staff cost reimbursements - related parties	602,177	-	-	(6,617)	595,560
Developer fees - related parties	657,721	-	-	-	657,721
Interest income	5,524	894	4,398	-	10,816
Net loss on investments in partnerships	(49,413)	(160)	-	-	(49,573)
Rental income	-	108,973	5,971,926	(78,000)	6,002,899
Forgiveness of debt income	-	-	334,195	-	334,195
Other	266,410	236,759	171,160	(215,161)	459,168
	<u>3,550,610</u>	<u>4,423,272</u>	<u>6,590,172</u>	<u>(4,583,337)</u>	<u>9,980,717</u>
Expenses					
Program services					
Real estate development	494,992	539,387	-	(20,295)	1,014,084
Resident services	658,213	-	-	(24,428)	633,785
Neighborhood stabilization	355,173	70,729	-	(21,046)	404,856
Asset management	374,902	-	6,195,965	(233,306)	6,337,561
Economic development	43,718	-	-	(1,808)	41,910
	<u>1,926,998</u>	<u>610,116</u>	<u>6,195,965</u>	<u>(300,883)</u>	<u>8,432,196</u>
Supporting services					
General administrative	297,498	-	-	(12,021)	285,477
Fundraising	9,331	-	-	(175)	9,156
	<u>306,829</u>	<u>-</u>	<u>-</u>	<u>(12,196)</u>	<u>294,633</u>
Total expenses	<u>2,233,827</u>	<u>610,116</u>	<u>6,195,965</u>	<u>(313,079)</u>	<u>8,726,829</u>
Excess of revenue over expenses from operations	<u>\$ 1,316,783</u>	<u>\$ 3,813,156</u>	<u>\$ 394,207</u>	<u>\$ (4,270,258)</u>	<u>\$ 1,253,888</u>