

**Codman Square Neighborhood Development
Corporation And Subsidiaries**

Financial Statements
and
Auditors' Report
December 31, 2014

**Codman Square Neighborhood Development Corporation
And Subsidiaries**

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Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

The Board of Directors

Codman Square Neighborhood Development Corporation and Subsidiaries

Report on the Financial Statements

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 December 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the fifteen month period then ended, and the related notes to the consolidated 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 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 consolidated financial statements are free of 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 December 31, 2014, and the changes their consolidated net assets and their consolidated cash flows for the fifteen month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidating financial schedules as a whole. The *Schedule of Financial Position and Schedule of Activities – Neighborhood Reinvestment Capital Fund, Consolidating Schedule of Financial Position and Consolidated Schedule of Revenues and Expenses* on pages 29 through 32 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying *Schedule of Expenditures of Federal Awards*, on page 34, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2015, on our consideration of CSNDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering CSNDC's internal control over financial reporting and compliance.

Daniel Dennis & Company LLP

June 11, 2015

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2014

Assets

Current Assets

Cash and cash equivalents	\$	6,146,131
Funds held in trust		551,297
Accounts receivable:		
Grants and contracts		67,723
Other, net		194,002
Restricted cash		234,564
Short-term investments		476,016
Mortgage loans receivable, net		4,675
Prepaid expenses		<u>119,481</u>
Total current assets		<u>7,793,889</u>

Property and Equipment

Land		8,191,522
Buildings and improvements		125,828,270
Office equipment and furniture		<u>6,014,582</u>
		140,034,374
Less accumulated depreciation		(42,242,376)
Construction in progress		<u>2,495,620</u>
Net property and equipment		<u>100,287,618</u>

Noncurrent Assets

Restricted cash		362,977
Cash - other		7,539,188
Investments		241,981
Real estate held for future use		1,378,729
Due from related parties		64,147
Capitalized fees and other intangible assets, net		<u>7,069,923</u>
Total noncurrent assets		<u>16,656,945</u>
Total assets		<u>\$ 124,738,452</u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
 Consolidated Statement of Financial Position - *Continued*
 December 31, 2014

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 369,174
Current portion of notes payable	2,684,799
Accrued expenses	510,776
Accrued interest	233,055
Prepaid rent	144,113
Deferred taxes	15,177
Funds held in trust	<u>519,193</u>
Total current liabilities	<u>4,476,287</u>

Noncurrent liabilities

Notes payable, net of current portion	66,566,344
Accrued interest	<u>9,755,300</u>
Total noncurrent liabilities	<u>76,321,644</u>
Total liabilities	<u>80,797,931</u>

Net Assets

Non-controlling interest	14,790,010
Unrestricted	26,886,841
Temporarily restricted	261,510
Permanently restricted	<u>2,002,160</u>
Total net assets	<u>43,940,521</u>
Total liabilities and net assets	<u><u>\$ 124,738,452</u></u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries

Consolidated Statement of Activities

For the Fifteen Month Period Ended December 31, 2014

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Revenue and Support				
Contributions:				
Neighborhood reinvestment	\$ 247,156	\$ -	\$ 200,000	\$ 447,156
Other	1,411,346	85,000	-	1,496,346
Government grants and contracts	343,829	-	-	343,829
Management fees	5,001	-	-	5,001
Interest income	22,715	-	-	22,715
Gain on sale of real-estate	465,196	-	-	465,196
Rental income	14,592,791	-	-	14,592,791
Gain on insurance claims	50,644	-	-	50,644
Forgiveness of debt income	521,455	-	-	521,455
Sales proceeds from historic tax credits	795,983	-	-	795,983
Loan guarantee fees	50,000	-	-	50,000
Other	624,905	-	-	624,905
Net assets released from restriction	<u>180,851</u>	<u>-</u>	<u>(180,851)</u>	<u>-</u>
Total revenue and support	<u>19,311,872</u>	<u>85,000</u>	<u>19,149</u>	<u>19,416,021</u>
Expenses				
Program services				
Real estate development	1,071,100	-	-	1,071,100
Resident services	956,146	-	-	956,146
Neighborhood stabilization	436,361	-	-	436,361
Asset management	18,418,265	-	-	18,418,265
Economic development	<u>28,433</u>	<u>-</u>	<u>-</u>	<u>28,433</u>
Total program services	20,910,305	-	-	20,910,305
Supporting services				
General administrative	381,779	-	-	381,779
Fundraising	<u>23,580</u>	<u>-</u>	<u>-</u>	<u>23,580</u>
Total supporting services	<u>405,359</u>	<u>-</u>	<u>-</u>	<u>405,359</u>
Total expenses	<u>21,315,664</u>	<u>-</u>	<u>-</u>	<u>21,315,664</u>
Change in net assets	(2,003,792)	85,000	19,149	(1,899,643)
Less amounts attributed to non-controlling interest	<u>(3,856,307)</u>	<u>-</u>	<u>-</u>	<u>(3,856,307)</u>
Change in net assets, controlling interest	<u>\$ 1,852,515</u>	<u>\$ 85,000</u>	<u>\$ 19,149</u>	<u>\$ 1,956,664</u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Changes in Net Assets
For the Fifteen Month Period Ended December 31, 2014

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Non-Controlling Interest</i>	<i>Total</i>
Net assets at beginning of year	\$ 25,034,326	\$ 176,510	\$ 1,983,011	\$ -	\$ 27,193,847
Adoption of accounting principal	-	-	-	12,364,982	12,364,982
Capital contribution	-	-	-	6,284,335	6,284,335
Equity distribution	-	-	-	(3,000)	(3,000)
Change in net assets	<u>1,852,515</u>	<u>85,000</u>	<u>19,149</u>	<u>(3,856,307)</u>	<u>(1,899,643)</u>
Net assets at end of year	<u>\$ 26,886,841</u>	<u>\$ 261,510</u>	<u>\$ 2,002,160</u>	<u>\$ 14,790,010</u>	<u>\$ 43,940,521</u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Functional Expenses
For the Fifteen Month Period Ended December 31, 2014

	<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>Total</i>
Salaries	\$ 430,914	\$ 586,596	\$ 288,064	\$ 1,620,724	\$ 20,431	\$ 2,946,729	\$ 265,988	\$ 5,866	\$ 3,218,583
Employee benefits	69,165	94,153	46,236	251,496	3,279	464,329	42,272	1,362	507,963
Payroll taxes	30,890	42,051	20,650	137,574	1,465	232,630	19,396	93	252,119
Total salaries and related expenses	<u>530,969</u>	<u>722,800</u>	<u>354,950</u>	<u>2,009,794</u>	<u>25,175</u>	<u>3,643,688</u>	<u>327,656</u>	<u>7,321</u>	<u>3,978,665</u>
Professional fees	29,041	9,400	11,780	332,199	327	382,747	4,262	94	387,103
Consulting fees	7,096	19,660	4,744	5,198	337	37,035	4,084	14,118	55,237
Program expenses	16,545	131,040	20,884	8,971	534	177,974	7,778	172	185,924
Rental expense	5,202	7,081	3,477	1,095	247	17,102	2,918	364	20,384
Travel, conferences and meetings	15,104	28,104	15,619	34,870	540	94,237	15,068	337	109,642
Telephone	3,364	5,501	2,967	89,920	198	101,950	2,123	874	104,947
Utilities	6,430	2,840	1,395	2,292,446	99	2,303,210	1,288	28	2,304,526
Office expense	23,211	20,417	11,716	95,248	651	151,243	11,195	154	162,592
Insurance	6,868	4,345	2,136	426,490	151	439,990	1,970	43	442,003
Temporary personnel	143	195	96	1,113	7	1,554	88	2	1,644
Interest expense	66,999	25	13	3,019,713	2	3,086,752	1,200	26	3,087,978
Contracted services	-	-	-	2,132,679	-	2,132,679	-	-	2,132,679
Repairs and maintenance	4,707	-	-	329,285	-	333,992	-	-	333,992
Real estate taxes	14,486	-	-	1,103,287	-	1,117,773	-	-	1,117,773
Bad debt	-	-	1,690	63,567	-	65,257	-	-	65,257
Depreciation and amortization	45,694	4,308	2,115	5,190,378	150	5,242,645	1,954	43	5,244,642
Loss on investment in real-estate	285,816	-	-	-	-	285,816	-	-	285,816
Management fees	-	-	-	882,524	-	882,524	-	-	882,524
Taxes and fees	1,228	430	667	27,469	15	29,809	195	4	30,008
Miscellaneous	8,197	-	2,112	372,019	-	382,328	-	-	382,328
Total expenses	<u>\$ 1,071,100</u>	<u>\$ 956,146</u>	<u>\$ 436,361</u>	<u>\$ 18,418,265</u>	<u>\$ 28,433</u>	<u>\$ 20,910,305</u>	<u>\$ 381,779</u>	<u>\$ 23,580</u>	<u>\$ 21,315,664</u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidated Statement of Cash Flows
For the Fifteen Month Period Ended December 31, 2014

<i>Cash Flows From Operating Activities:</i>	
Change in net assets	\$ (1,899,643)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	5,244,642
Loss on real-estate	285,816
Bad debt expense	65,257
Debt forgiveness income	(677,411)
Gain on sale of real-estate	(465,196)
Cost of goods sold	216,341
Accrued interest	772,823
(Increase)/decrease in operating assets:	
Accounts receivable	(311,254)
Grant and contracts receivable	91,717
Mortgage loans receivable	854
Funds held in trust	(20,690)
Prepaid expenses	3,069
Increase/(decrease) in operating liabilities:	
Accounts payable	94,693
Accrued expenses	124,414
Deferred revenue	15,177
Accrued interest	376,433
Prepaid rent	(21,424)
Funds held in trust	3,570
Net cash provided by operating activities	<u>3,899,188</u>
<i>Cash flows from investing activities:</i>	
Increase in cash - other	(370,223)
Decrease in restricted cash	522,475
Decrease in investments - other	337,080
Decrease in amounts due from related parties, net	(211,001)
Proceeds from sale of building	2,620,598
Purchase of land	(178,750)
Payments for capitalized costs	(1,128,206)
Payments for property and equipment	<u>(1,172,800)</u>
Net cash provided by investing activities	<u>419,173</u>
<i>Cash flows from financing activities:</i>	
Proceeds from notes payable	4,197,285
Proceeds from investor contribution	6,284,335
Payment of distribution	(3,000)
Repayment of notes payable	<u>(12,902,206)</u>
Net cash used in financing activities	<u>(2,423,586)</u>
Net change in cash	<u>1,894,775</u>
Cash, beginning of year	<u>4,251,356</u>
Cash, at end of year	<u>\$ 6,146,131</u>
<i>Supplementary Disclosure of Cash Flow Information</i>	
Cash paid during the year for interest	<u>\$ 895,625</u>
Cash paid during the year for income taxes	<u>\$ 4,104</u>

See accompanying notes to the consolidated financial statements.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014

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*

December 31, 2014

2. *Summary of Significant Account Policies*

Reporting Entity

During 2014, CSNDC changed the entities whose financials results are presented in the consolidated financial statements to include the subsidiaries for which CSNDC has a non-controlling interest in addition to the subsidiaries which are wholly owned.

As a result of the change in reporting entity, CSNDC changed its fiscal year-end from September 30th to December 31st to coincide with the fiscal year ends of the subsidiaries for which CSNDC has a non-controlling interest. CSNDC and its subsidiaries have elected to present the consolidated financial statements for the fifteen month period October 1, 2013 through December 31, 2014.

The adoption of this accounting principle is reflected in the accompanying Consolidated Statement of Changes in Net Assets and resulted in an increase to the consolidated net assets at October 1, 2013 of \$12,364,982.

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

The consolidated financial statements include the accounts of CSNDC and its forty-three subsidiaries. These subsidiaries are:

<i>Subsidiary</i>	<i>Purpose</i>
157 Washington Street AB&W LLC	Organized to develop and operate residential and commercial property
241 Talbot LLC	Organized to develop and operate residential and commercial property
Erie Ellington LP	Organized to develop and operate residential property
Girls Latin Academy II LLC	Organized to develop and operate residential property
New Codman Square Apartments LLC	Organized to acquire and develop residential and commercial property
New Lithgow Residential LLC	Organized to develop and operate residential property
Norfolk Terrace LP	Organized to develop and operate residential property
Olmsted Green Rental I LLC	Organized to develop and operate residential property
Talbot Bernard Housing LLC	Organized to develop and operate residential property
Lithgow Commercial Limited Partnership (LCLP)	Organized to lease commercial property
Washington Columbia Apartments Limited Partnership (WCALP)	Organized to develop and operate residential property
Washington Columbia Apartments II Limited Partnership (WCAIILP)	Organized to develop and operate residential property
On the Square, Inc. (OTS)	Organized to lease commercial property
Codman Square Limited Partnership (CSLP)	Organized to support New Codman Square Apartments LLC

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

2. *Summary of Significant Account Policies – Continued*

Principals of Consolidation – Continued

<i>Subsidiary</i>	<i>Purpose</i>
Girls Latin Academy, LLC (GLA)	Organized to purchase, rehabilitate and rent residential real estate
Lithgow Residential Limited Partnership (LRLP)	Organized to support New Lithgow Residential LLC
Talbot Station LLC (TSLLC)	Organized to acquire and develop residential and commercial property
Whittier Place LLC (WPLLC)	Organized to acquire and develop residential property
Codman Square Rehab, Inc. (CSR)	Organized to purchase, rehabilitate, and resell one-to four unit residential properties
Codman Square Housing Services, Inc. (CSHS)	Organized to provide various housing related services to area residents
Four Corners Plaza, LLC (FCP)	Organized to purchase and rehabilitate commercial property
NDC Holding Company, Inc. (NDCH)	Holds property held for future use
157 Washington Rental Commercial LLC (157WRCLLC)	Organized to lease commercial property
Girls Latin Academy Corporation (GLAC)	Non-managing member of Girls Latin Academy, LLC
157 Washington Rental LLC (157RLLC)	Organized to lease residential property
CSNDC Holding LLC (CHLLC)	Organized to acquire and develop residential property
Girls Latin II Lessor LLC (GLIILLC)	Organized to lease residential property
Talbot Commons II LLC (TCIILLC)	Organized to acquire and develop residential property
Codman Community Development, Inc. (CCDI)	Organized to support the charitable purposes of CSNDC and owns 99% of Codman Square Limited Partnership
157 Washington Street Managing Member (157WS)	Owns .01% of 157 Washington Street AB&W LLC
241 Talbot Corporation (241Corp)	Owns .01% of 241 Talbot LLC
766 Washington Associates, Inc. (766WIA)	Owns 50% of 766 Washington Associates
Codman Square Apartments, Inc. (CSA)	Owns 1% of Codman Square Limited Partnership
Erie Ellington Homes, Inc. (EEH)	Owns 0.01% of Erie Ellington Limited Partnership
Lithgow Apartments, Inc. (LAI)	Owns 1% of Lithgow Residential Limited Partnership and .01% of New Lithgow Residential LLC
Lithgow Commercial, Inc. (LCI)	Owns 1% of Lithgow Commercial Limited Partnership
Lithgow Inc. (LI)	Owns 1% of Lithgow Commercial LLC
New CSA Manager LLC (NCSA)	Owns .01% of New Codman Square Apartments LLC
New Lithgow Holdings LLC (LHLLC)	Owns 1% of New Lithgow Residential LLC
Norfolk Terrace Corporation (NTC)	Owns 1% of Norfolk Terrace Limited Partnership;
Talbot Bernard Corporation (TBC)	Owns 0.01% of Talbot Bernard Housing, LLC
Washington Columbia Apartments, Inc. (WCA)	Owns 1% of Washington Columbia Limited Partnership
Washington Columbia II Apartments, Inc. (WC2A)	Owns 1% of Washington Columbia II Limited Partnership

All forty-three 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 forty-three subsidiaries 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*
December 31, 2014

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.

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.

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
December 31, 2014

2. *Summary of Significant Account Policies – Continued*

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 December 31, 2014 CSNDC did not hold any cash equivalents.

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

Depreciation expense totaled \$5,143,381 for the fifteen month period ended December 31, 2014.

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 December 31, 2014, management has determined that there has been no impairment of the long lived assets.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

2. *Summary of Significant Account Policies – Continued*

Property and Equipment – Continued

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 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

2. *Summary of Significant Account Policies – Continued*

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.
- 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.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

2. *Summary of Significant Account Policies – Continued*

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 fifteen month period ended December 31, 2014, CSNDC had no unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements. CSNDC's for-profit subsidiaries file separate income tax returns.

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

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

CSNDC evaluates tax positions taken or expected to be taken in its tax returns and in its subsidiaries' tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. At December 31, 2014, CSNDC believes that it has no uncertain tax positions within its open tax returns and within any of its subsidiaries' open tax returns. The 2011 through 2013 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. These subsidiaries have not discounted their below market interest rate loans as they were made at arm's length and to preserve the integrity of costs eligible for the LIHTC.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

3. *Related Party Transactions*

The following are the amounts due from affiliates at December 31, 2014:

Olmstead Green Rental II, LLC	\$ 63,947
538 Talbot Avenue, Inc	19
526 Park Street, Inc.	181
Total	<u>\$ 64,147</u>

Additionally, during 2014 CSNDC earned income from Olmstead Green Rental II, LLC for management fees in the amount of \$5,001 and for a loan guarantee fee in the amount of \$50,000.

4. *Restricted Cash*

As of December 31, 2014, CSNDC has \$597,541 of cash restricted for development.

5. *Cash - Other*

As the general partners of limited partnerships, WCA and WC2A are required by the limited partnership agreements to maintain a minimum net worth on deposit. Additionally, the subsidiaries who operate residential and commercial property are required to maintain separate accounts for escrows and reserves per mortgage notes. Cash – other includes those combined net worth accounts, escrows, and reserves.

6. *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 December 31, 2014 was \$717,997 (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 for the fifteen month period ended December 31, 2014.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

7. *Mortgage Loans Receivable*

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

8. *Construction in Process*

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

The balance consists of the following:

<i>Subsidiary</i>	<i>Amount</i>
WCALP	\$ 59,220
WPLL	<u>2,436,400</u>
Total	<u>\$ 2,495,620</u>

9. *Notes Payable*

Notes payable consist of the following:

CSNDC

A loan from Community Economic Development Assistance Corporation (CEDAC) passed through to WPLL. The note bears interest at 7% per annum. Repayment is due upon the closing of permanent financing for the related property. As of December 31, 2014 accrued interest was \$29,511. \$ 393,594

A predevelopment loan from CEDAC passed through to TSLLC. 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 December 31, 2014 accrued interest was \$46,705. 255,538

A loan from Massachusetts Development Finance Agency (MDFA) 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

Codman Square Neighborhood Development Corporation and Subsidiaries
Notes to Consolidated Financial Statements - *Continued*
December 31, 2014

9. Notes Payable - Continued

<p>CSNDC 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 December 31, 2014 was \$68,723.</p>	130,733
<p>A loan from MDFA in the amount of \$100,000 for the church lots project. Repayment is due in full within thirty days of a triggering event as described in the note agreement. If the funds are not repaid within 30 days of the triggering event the funds shall bear interest at 3% per annum.</p>	37,519
<p>A predevelopment loan from Local Initiatives Support Corporation (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 is in default as of December 31, 2014.</p>	30,000
<p><i>Codman Square Rehab, Inc.</i></p>	
<p>CSR has a note payable to City of Boston through the 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>CSR has a note payable to East Boston Savings Bank, providing for a maximum loan amount of \$166,500. 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>	161,366
<p>CSR 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 CSR complies with the affordable housing agreement, the loan will be forgiven on its maturity date.</p>	495,901

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

9. Notes Payable- Continued

Talbot Station I LLC

TS LLC has a note payable to LISC, providing for a maximum loan amount of \$1,440,986. 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 December 31, 2016. As of December 31, 2014 accrued interest was \$6,910. The note is guaranteed by CSDNC.

1,440,986

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, 2017. As of December 31, 2014 accrued interest was \$0. The note is guaranteed by CSDNC.

200,000

TS LLC has a note payable to DND, providing for a maximum loan amount of \$232,800. The note is interest free. Repayment is due on the earlier of the initial disbursement of construction financing or October 7, 2019.

35,656

Whittier Place LLC

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, 2015. The note is guaranteed by CSDNC. As of December 31, 2014 accrued interest was \$10,241.

616,500

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 June, 30 2015. The loan is secured by real estate at 4-6 Lyndhurst Avenue and guaranteed by CSNDNC. As of December 31, 2014 accrued interest was \$0.

110,000

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 16, 2015. As of December 31, 2014 accrued interest was \$1,428.

95,277

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

9. Notes Payable- Continued

WP LLC 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. As of December 31, 2014 accrued interest was \$8,352. 226,942

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 December 31, 2014 accrued interest was \$5,400. 432,000

On The Square, Inc.

OTS 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. The note is guaranteed by CSNDC. As of December 31, 2014 accrued interest was \$3,080. 908,089

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 \$68,691,183. The mortgages and notes payable have interest rates between zero and 8.02%. Of the total balances outstanding, one third require monthly payments of principal and interest which totaled \$136,469, 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 June 30, 2063. Accrued interest as of December 31, 2014 was \$9,808,005. 63,631,381

Total 69,251,143

Less current portion 2,684,799

Notes payable, net of current portion \$ 66,566,344

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

9. Notes Payable- Continued

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

2015	\$	2,684,799
2016		2,765,977
2017		723,726
2018		527,844
2019		593,539
Thereafter		<u>61,955,258</u>
Total	\$	<u>69,251,143</u>

10. Funds Held in Trust

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

The subsidiaries who operate commercial and rental properties 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 December 31, 2014 is included in funds held in trust.

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

11. Net Assets

This account represents the cumulative excess of revenue, gains and other support over expenses. Net assets consists of three components, unrestricted, temporarily restricted and permanently restricted. Unrestricted funds are not restricted as to use. Restricted funds are funds that are subject to donor imposed restrictions.

Board Designated

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 December 31, 2014:

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

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

11. Net Assets – Continued

Temporarily Restricted

At December 31, 2014, temporarily restricted net assets were restricted for the following:

Purpose restriction	\$ 176,510
Time restriction	<u>85,000</u>
Total temporarily restricted net assets	<u>\$ 261,510</u>

Permanently Restricted

At December 31, 2014, permanently restricted net assets consist of grants received from the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund from 1996 through 2014:

<i>Description</i>	<i>Amount</i>
Cash and Cash equivalents	\$ 396,607
Real-estate development	1,569,106
Mortgage to qualified homeowners	<u>36,447</u>
Total permanently and temporarily restricted net assets	<u>\$ 2,002,160</u>

Additionally, during the fifteen month period ended December 31, 2014, Neighborworks allowed CSNDC to release \$180,851 of permanently restricted Revolving Loan funds into unrestricted net assets.

12. Commercial Leases

Future minimum lease payments under operating leases from tenants are as follows:

2015	\$ 194,789
2016	\$ 129,789
2017	\$ 86,827
2018	\$ 100,500
2019	\$ 57,518

13. Income Taxes

As of December 31, 2014, CSNDC's for-profit subsidiaries had net operating loss carryforwards totaling approximately \$1,064,000. These net operating loss carryforwards will expire at various times between 2015 and 2030. It is unclear if CSNDC will realize value from these 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*

December 31, 2014

14. Conditional Promises to Give

Conditional promises to give consist of conditional grant awards to support CSNDC's programs. At December 31, 2014 conditional promises to give totaled \$13,107. The conditional promises to give will be recognized in the financial statements when the conditions on which they depended are substantially met.

15. 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 real estate holdings are concentrated in the affordable housing real estate market within the Codman Square neighborhood of Dorchester, Massachusetts. A downturn in this market could negatively impact the realizable value of CSNDC's real estate holdings.

16. Commitments

Loan Commitments

CSNDC has received various financing commitments to fund construction costs related to renovations at several of its projects. As of December 31, 2014 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	\$ 200,000	\$ 130,733	\$ 69,267
Massachusetts Housing Finance Agency	127,000	61,680	65,320
Community Housing Capital	300,000	110,000	190,000
Local Initiatives Support Corporation	100,000	95,277	4,723
Total	<u>\$ 727,000</u>	<u>\$ 397,690</u>	<u>\$ 329,310</u>

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

17. *Historic Tax Credits*

CSNDC sold the Commonwealth of Massachusetts historic tax credits relating to New Codman Square Apartments, LLC to a third party. The proceeds from the sale, were \$795,983 and were 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 \$32,427 at December 31, 2014. Additionally, during fiscal year 2012 CSNDC guaranteed a loan from CEDAC to SWBCDC in the amount of \$173,750 at December 31, 2014.

19. *Real Estate held for Future Use*

NDCH, FCP and TSLLC 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 December 31, 2014</u>
526 Park Street, Inc.	CEDAC	\$ 300,000

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.

CSNDC's management believes the risk of payments under the above guarantees is low.

21. *Contingent Liability*

The rental real-estate 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*

December 31, 2014

22. *Sale of Real Estate*

CSR

During the fifteen month period ended December 31, 2014, CSR sold its Seaver Street Project (the Property) and the loss from the sale is as follows:

Sales price	\$ 290,000
Debt forgiveness	155,956
Cost of goods sold	<u>(468,013)</u>
Loss	<u>\$ (22,057)</u>

The construction of the Property was funded through loans from DND. Pursuant to the loan agreement with DND if certain provisions in the loan agreements were met the loan would be forgiven. During the fifteen month period ended December 31, 2014, CSR satisfied those provisions and DND discharged \$155,956 of debt.

LCLP

During the fifteen month period ended December 31, 2014, LCLP sold the Project to an unrelated entity for \$2,660,000. The sale resulted in a gain of approximately \$487,253. LCLP had a note payable to DND and upon the sale of the Project \$521,455 of debt was forgiven by DND.

LCLP has ceased operations and plans to liquidate in 2015.

23. *Capitalized Fees and Partnership Goodwill*

Capitalized fees totaling \$2,095,152 are recorded at cost and amortized over the lives of the related loans or tax credit compliance periods. Accumulated amortization totaled \$607,586 at December 31, 2014. Amortization expense totaled \$101,261 for the fifteen month period ended December 31, 2014 and the estimated amortization expense for each of the next five years is \$101,261.

Partnership goodwill totaling \$5,582,357 represents the difference between the appraised value of the WCALP and WCAILP partnership interest contributed to CSNDC and their book value prior to the contribution. Under GAAP goodwill is not amortized. The goodwill is evaluated for impairment on an annual basis. In CSNDC's opinion, there has been no impairment to the value of the recorded goodwill for the 15 month period ended December 31, 2014.

Codman Square Neighborhood Development Corporation and Subsidiaries

Notes to Consolidated Financial Statements - *Continued*

December 31, 2014

24. Consolidation

For financial reporting purposes, the financial position and activities of CSNDC and its forty-three subsidiaries that 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>\$ 33,548,293</u>	<u>\$ 138,474,037</u>	<u>\$ (47,283,878)</u>	<u>\$ 124,738,452</u>
Liabilities	<u>\$ 1,341,256</u>	<u>\$ 101,107,759</u>	<u>\$ (21,651,084)</u>	<u>\$ 80,797,931</u>
Net assets / equity	<u>32,207,037</u>	<u>37,366,278</u>	<u>(25,632,794)</u>	<u>43,940,521</u>
Total liabilities and net assets	<u>\$ 33,548,293</u>	<u>\$ 138,474,037</u>	<u>\$ (47,283,878)</u>	<u>\$ 124,738,452</u>
Revenues	<u>\$ 5,380,706</u>	<u>\$ 15,387,383</u>	<u>\$ (1,352,068)</u>	<u>\$ 19,416,021</u>
Expenses	<u>2,761,548</u>	<u>19,660,957</u>	<u>(1,106,841)</u>	<u>21,315,664</u>
Change in net assets	<u>\$ 2,619,158</u>	<u>\$ (4,273,574)</u>	<u>\$ (245,227)</u>	<u>\$ (1,899,643)</u>

25. Subsequent Events

CSNDC has evaluated subsequent events through June 11, 2015, 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
December 31, 2014

Assets

Cash and cash equivalents	\$ 573,117
Real-estate development	1,569,106
Mortgages to qualified homeowners	<u>36,447</u>
Total Assets	<u><u>\$ 2,178,670</u></u>

Liabilities and Net Assets

Net assets

Temporarily restricted	\$ 176,510
CFRAH-Fund	374,500
Permanently restricted	<u>1,627,660</u>
Total net assets	<u>2,178,670</u>
Total liabilities and net assets	<u><u>\$ 2,178,670</u></u>

Schedule of Activities – Neighborhood Reinvestment Capital Fund
For the Fifteen Month Period Ended December 31, 2014

Revenue and support

Capital Grant - Neighborhood reinvestment	\$ 200,000
Release from restriction	<u>(180,851)</u>
Change in net assets	19,149
Net assets, beginning of year	<u>2,159,521</u>
Net assets, end of year	<u><u>\$ 2,178,670</u></u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Financial Position
December 31, 2014

Assets

<i>Current Assets</i>	<i>CSNDC</i>	<i>Non-Rental Program Services</i>	<i>Rental Real Estate</i>	<i>Eliminations</i>	<i>Consolidated</i>
Cash and cash equivalents	\$ 2,962,824	\$ 622,858	\$ 2,560,449	\$ -	\$ 6,146,131
Funds held in trust	141,803	8,281	401,213	-	551,297
Accounts receivable:					
Grants and contracts	67,723	-	-	-	67,723
Other, net	405,943	39,639	464,003	(715,583)	194,002
Restricted cash	234,564	-	-	-	234,564
Short-term investments	261,901	214,115	-	-	476,016
Mortgage loans receivable, net	-	4,675	-	-	4,675
Prepaid expenses	17,915	832	100,734	-	119,481
Total current assets	<u>4,092,673</u>	<u>890,400</u>	<u>3,526,399</u>	<u>(715,583)</u>	<u>7,793,889</u>
<i>Property and Equipment</i>					
Land	-	1,490,058	6,701,464	-	8,191,522
Buildings and improvements	152,999	2,186,570	132,644,365	(9,155,664)	125,828,270
Office equipment and furniture	105,317	-	5,909,265	-	6,014,582
	258,316	3,676,628	145,255,094	(9,155,664)	140,034,374
Less accumulated depreciation	(186,401)	(100,072)	(42,520,790)	564,887	(42,242,376)
Construction in progress	-	2,436,400	59,220	-	2,495,620
Net property and equipment	<u>71,915</u>	<u>6,012,956</u>	<u>102,793,524</u>	<u>(8,590,777)</u>	<u>100,287,618</u>
<i>Noncurrent Assets</i>					
Restricted cash	-	362,977	-	-	362,977
Cash - other	-	-	7,539,188	-	7,539,188
Investments	241,981	-	-	-	241,981
Real estate held for future use	145,500	1,233,229	-	-	1,378,729
Due from related parties	513,948	-	231,465	(681,266)	64,147
Capitalized fees and other intangible assets, net	-	24,707	7,045,216	-	7,069,923
Investment in subsidiaries	14,573,973	4,081,440	-	(18,655,413)	-
Interest in related parties	-	438,775	-	(438,775)	-
Notes receivable and accrued interest - related parties	13,908,303	171,094	4,122,667	(18,202,064)	-
Total noncurrent assets	<u>29,383,705</u>	<u>6,312,222</u>	<u>18,938,536</u>	<u>(37,977,518)</u>	<u>16,656,945</u>
Total assets	<u>\$ 33,548,293</u>	<u>\$ 13,215,578</u>	<u>\$ 125,258,459</u>	<u>\$ (47,283,878)</u>	<u>\$ 124,738,452</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
 Consolidating Schedule of Financial Position - *continued*
 December 31, 2014

Liabilities and Net Assets

	CSNDC	Non-Rental Program Services	Rental Real Estate	Eliminations	Consolidated
<i>Current Liabilities</i>					
Accounts payable	\$ 67,617	\$ 566,128	\$ 193,666	\$ (458,237)	\$ 369,174
Current portion of notes payable	447,755	1,051,249	1,185,795	-	2,684,799
Accrued expenses	84,781	15,861	887,610	(477,476)	510,776
Accrued interest	-	54,932	178,123	-	233,055
Prepaid rent	-	18,063	126,050	-	144,113
Deferred taxes	-	-	15,177	-	15,177
Due to related parties	171,094	507,653	242,553	(921,300)	-
Funds held in trust	146,219	12,846	360,128	-	519,193
Total current liabilities	<u>917,466</u>	<u>2,226,732</u>	<u>3,189,102</u>	<u>(1,857,013)</u>	<u>4,476,287</u>
<i>Noncurrent liabilities</i>					
Notes payable, net of current portion	423,790	7,441,862	75,880,323	(17,179,631)	66,566,344
Accrued interest	-	122,338	12,247,402	(2,614,440)	9,755,300
Total noncurrent liabilities	<u>423,790</u>	<u>7,564,200</u>	<u>88,127,725</u>	<u>(19,794,071)</u>	<u>76,321,644</u>
Total liabilities	<u>1,341,256</u>	<u>9,790,932</u>	<u>91,316,827</u>	<u>(21,651,084)</u>	<u>80,797,931</u>
<i>Net Assets</i>					
Non-controlling interest	-	3,424,646	33,941,632	(22,576,268)	14,790,010
Unrestricted	29,943,367	-	-	(3,056,526)	26,886,841
Temporarily restricted	261,510	-	-	-	261,510
Permanently restricted	2,002,160	-	-	-	2,002,160
Total net assets	<u>32,207,037</u>	<u>3,424,646</u>	<u>33,941,632</u>	<u>(25,632,794)</u>	<u>43,940,521</u>
Total liabilities and net assets	<u>\$ 33,548,293</u>	<u>\$ 13,215,578</u>	<u>\$ 125,258,459</u>	<u>\$ (47,283,878)</u>	<u>\$ 124,738,452</u>

Codman Square Neighborhood Development Corporation and Subsidiaries
Consolidating Schedule of Revenue and Expenses
For the Fifteen Month Period Ended December 31, 2014

	<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	\$ 447,156	\$ -	\$ -	\$ -	\$ 447,156
Other	1,517,946	-	-	(21,600)	1,496,346
Government grants and contracts	343,829	-	-	-	343,829
Interest on notes receivable - related parties	284,325	-	154,564	(438,889)	-
Resident services fees - related parties	221,125	-	-	(221,125)	-
Management fees - related parties	248,365	-	-	(243,364)	5,001
Staff cost reimbursements - related parties	43,746	-	-	(43,746)	-
Developer fees - related parties	165,387	-	-	(165,387)	-
Interest income	6,149	5,690	10,876	-	22,715
Gain on investments - related parties	672,187	138,020	-	(810,207)	-
Gain/(loss) on sale of real-estate	-	(99,721)	(152,118)	717,035	465,196
Rental income	-	126,995	14,559,112	(93,316)	14,592,791
Gain on insurance claims	-	-	50,644	-	50,644
Forgiveness of debt income	-	-	521,455	-	521,455
Sale proceeds from historic tax credits	795,983	-	-	-	795,983
Loan guarantee fees	57,925	-	-	(7,925)	50,000
Other	576,583	9,593	62,273	(23,544)	624,905
	<u>5,380,706</u>	<u>180,577</u>	<u>15,206,806</u>	<u>(1,352,068)</u>	<u>19,416,021</u>
Expenses					
Program services					
Real estate development	639,048	465,239	-	(33,187)	1,071,100
Resident services	985,502	-	-	(29,356)	956,146
Neighborhood stabilization	439,869	16,969	-	(20,477)	436,361
Asset management	248,711	43,483	19,135,266	(1,009,195)	18,418,265
Economic development	29,455	-	-	(1,022)	28,433
	<u>2,342,585</u>	<u>525,691</u>	<u>19,135,266</u>	<u>(1,093,237)</u>	<u>20,910,305</u>
Supporting services					
General administrative	395,383	-	-	(13,604)	381,779
Fundraising	23,580	-	-	-	23,580
	<u>418,963</u>	<u>-</u>	<u>-</u>	<u>(13,604)</u>	<u>405,359</u>
	<u>2,761,548</u>	<u>525,691</u>	<u>19,135,266</u>	<u>(1,106,841)</u>	<u>21,315,664</u>
Excess of revenue over expenses from operations	<u>\$ 2,619,158</u>	<u>\$ (345,114)</u>	<u>\$ (3,928,460)</u>	<u>\$ (245,227)</u>	<u>\$ (1,899,643)</u>

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Codman Square Neighborhood Development Corporation

Schedule of Expenditures of Federal Awards

For The Fifteen Month Period ended December 31, 2014

<i>Federal Grantor (Pass-Through Grantor) Program Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures</i>
<i>U.S. Department of Housing and Urban Development</i>		
Pass through Department of Neighborhood Development HOME Investment Partnerships Program Grant	14.239	\$ 18,885
Sustainable Communities Regional Planning Grant Program	14.703	10,000
Pass through Department of Neighborhood Development Community Development Block Grants/Entitlement Grants	14.218	64,599
Pass through Local Initiatives Support Corporation Section 4 Capacity Building for Community Development and Affordable Housing	14.252	<u>138,678</u>
Total U.S. Department of Housing and Urban Development		<u>232,162</u>
<i>U.S. Department of Treasury</i>		
Pass through NeighborWorks America Neighborhood Reinvestment Corporation		
Restricted Capital Funds	21.000	200,000
Expendable Grant Funds	21.000	<u>509,811</u>
Total U.S. Department of Treasury		<u>709,811</u>
Total Expenditures of Federal Awards		<u>\$ 941,973</u>

Codman Square Neighborhood Development Corporation

Notes to Schedule of Expenditures of Federal Awards

December 31, 2014

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 fifteen month period ended December 31, 2014. 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.

**REPORTS ON INTERNAL CONTROL
AND COMPLIANCE**



Daniel Dennis & Company LLP

Certified Public Accountants

*Independent Auditor's 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*

The Board of Directors

Codman Square Neighborhood Development Corporation

We have audited, in accordance with the 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 Codman Square Neighborhood Development Corporation (a nonprofit Organization) and Subsidiaries (CSNDC), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statement of activities and cash flows for the fifteen month period then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered CSNDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSNDC's internal control. Accordingly, we do not express an opinion on the effectiveness of CSNDC's internal control.

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 CSNDC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CSNDC's consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CSNDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSNDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daniel Dennis & Company LLP

June 11, 2015



Daniel Dennis & Company LLP

Certified Public Accountants

*Independent Auditor's Report On Compliance For Each Major Program
And On Internal Control Over Compliance Required By OMB Circular A-133*

The Board of Directors
Codman Square Neighborhood Development Corporation

Report on Compliance for Each Major Federal Program

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 fifteen month period ended December 31, 2014. CSNDC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for CSNDC's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of CSNDC's compliance.

Opinion on Each Major Federal Program

In our opinion, CSNDC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fifteen month period ended December 31, 2014.

Report on Internal Control Over Compliance

Management of CSNDC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CSNDC's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Daniel Dennis & Company LLP

June 11, 2015

Codman Square Neighborhood Development Corporation
 Schedule of Findings and Questioned Costs
 For the Fifteen Month Period Ended December 31, 2014

I. Summary of Audit Results

Financial Statements

Type of auditor's report issued Unmodified

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 Unmodified

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 program:

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? _____ X yes _____ no

Codman Square Neighborhood Development Corporation
Schedule of Findings and Questioned Costs – *Continued*
For the Fifteen Month Period Ended December 31, 2014

II. Financial Statement Findings

NONE

III. Federal Award Findings and Questioned Costs

NONE

IV. Summary of Prior Audit findings

NONE