

CitySquare and Subsidiaries

Consolidated Financial Statements
and Supplementary Information
and Single Audit Reports and Schedules

December 31, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CitySquare and Subsidiaries
Dallas, Texas

Opinion

We have audited the accompanying consolidated financial statements of CitySquare and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CitySquare and Subsidiaries as of December 31, 2021, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of CityWalk at Akard Master Condominium Association, Inc., Akard Walk Commercial, LLC, Akard Walk Residential, LLC, St. Anne's Hospital, LLC, TEOF, Wynnewood Family Housing, LP, Wynnewood Seniors Housing GP, LLC, and CitySquare Housing (herein collectively referred to as "CitySquare Housing and Subsidiaries"), which statements reflect total assets constituting 78% of consolidated assets at December 31, 2021 and total revenues constituting 19% of consolidated revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CitySquare Housing, is based solely on the report of the other auditors.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, except for the audit of CitySquare Housing and Subsidiaries, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CitySquare and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CitySquare's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CitySquare's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CitySquare's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 32 - 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 our report dated September 19, 2022, on our consideration of the Organization's, excluding CitySquare Housing and Subsidiaries, 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 the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Armanino^{LLP}
Dallas, Texas

September 19, 2022

CitySquare and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2021

ASSETS

Cash and cash equivalents	\$ 3,357,711
Cash held for agency	3,160,491
Restricted deposits and reserves	3,386,218
Federal and state grants receivable	910,449
Rents receivable, net	627,218
Receivables from related entities	50,641
Insurance claims receivable	267,207
Prepaid and other assets	761,885
Tax credit fees, net	411,738
Investments held for sale	575,892
Real estate held for sale	340,417
Property and equipment, net	<u>74,405,078</u>
 Total assets	 <u><u>\$ 88,254,945</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable to unrelated entities	\$ 2,229,745
Accounts payable to related entities	1,731,457
Accrued expenses and other liabilities	1,349,412
Agency liability	3,160,491
Investment in unconsolidated entities	327,652
Contingent notes payable	68,315
Notes payable, net	<u>23,911,922</u>
Total liabilities	<u><u>32,778,994</u></u>
 Net assets	
Without donor restrictions	
Controlling	23,067,235
Noncontrolling	<u>31,823,169</u>
Total without donor restrictions	54,890,404
With donor restrictions	<u>585,547</u>
Total net assets	<u><u>55,475,951</u></u>
 Total liabilities and net assets	 <u><u>\$ 88,254,945</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Consolidated Statement of Activities
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Contributions and grants			
Individuals	\$ 1,774,220	\$ -	\$ 1,774,220
Religious organizations	321,276	-	321,276
Corporations	954,534	68,398	1,022,932
Foundations	2,560,197	267,107	2,827,304
Federal, state, and city	11,998,690	683	11,999,373
United Way	450,676	21,336	472,012
In-kind contributions	6,548,648	-	6,548,648
Total contributions and grants	24,608,241	357,524	24,965,765
Program revenue	668,924	-	668,924
Sales of merchandise	7,922	-	7,922
Proceeds from fundraising events	595,240	-	595,240
Less: direct benefit to donors	(97,361)	-	(97,361)
Interest income	12,167	-	12,167
Rental income, net of vacancies	6,177,967	-	6,177,967
Tenant expense reimbursements	54,630	-	54,630
Other revenue	87,551	-	87,551
Total revenues and other support	32,115,281	357,524	32,472,805
Net assets released from restriction	349,834	(349,834)	-
Total revenues and other support	32,465,115	7,690	32,472,805

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Consolidated Statement of Activities
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Functional expenses			
Program services			
Hope	7,497,342	-	7,497,342
Housing	14,400,648	-	14,400,648
Hunger	6,934,583	-	6,934,583
Health	1,823,848	-	1,823,848
Total program services	<u>30,656,421</u>	<u>-</u>	<u>30,656,421</u>
Support services			
Management and general	4,319,282	-	4,319,282
Fundraising	948,684	-	948,684
Total support services	<u>5,267,966</u>	<u>-</u>	<u>5,267,966</u>
Total functional expenses	<u>35,924,387</u>	<u>-</u>	<u>35,924,387</u>
 Change in net assets from operations	 <u>(3,459,272)</u>	 <u>7,690</u>	 <u>(3,451,582)</u>
 Other gains/(losses)			
Gain on forgiveness of Paycheck Protection Program loan	1,391,358	-	1,391,358
Loss on uncollectible receivables from related entities	(137,319)	-	(137,319)
Loss on equity in earnings of unconsolidated entities	(327,652)	-	(327,652)
Loss on impairment of real estate	(1,186,973)	-	(1,186,973)
Loss on impairment of investments in unconsolidated entities	(530,019)	-	(530,019)
Total other gains/(losses)	<u>(790,605)</u>	<u>-</u>	<u>(790,605)</u>
 Change in net assets	 (4,249,877)	 7,690	 (4,242,187)
 Noncontrolling interest	 <u>(1,606,593)</u>	 <u>-</u>	 <u>(1,606,593)</u>
 Change in net assets attributable to the controlling interest	 (2,643,284)	 7,690	 (2,635,594)
 Net assets, beginning of year	 59,182,724	 577,857	 59,760,581
Distributions	(42,443)	-	(42,443)
Noncontrolling interest	<u>(1,606,593)</u>	<u>-</u>	<u>(1,606,593)</u>
 Net assets, end of year	 <u>\$ 54,890,404</u>	 <u>\$ 585,547</u>	 <u>\$ 55,475,951</u>

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2021

	Hope	Housing	Hunger	Health	Total Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Operating expenses									
Personnel expenses	\$ 4,018,867	\$ 3,405,423	\$ 685,900	\$ 315,383	\$ 8,425,573	\$ 2,334,670	\$ 615,445	\$ -	\$ 11,375,688
Direct assistance to clients	2,365,476	3,434,019	1,128,436	-	6,927,931	19,545	1,958	-	6,949,434
Bad debt expense	-	238,679	-	-	238,679	-	-	-	238,679
Bank charges	3,198	2,535	698	238	6,669	2,206	27,860	-	36,735
Other in-kind expenses	342,689	74,668	4,623,328	1,459,650	6,500,335	-	-	-	6,500,335
Dues and subscriptions	10,922	5,795	742	253	17,712	10,083	-	-	27,795
Information technology	41,719	40,754	32,936	6,083	121,492	25,110	6,442	-	153,044
Interest expense	1,000	865,845	438	-	867,283	189,138	-	-	1,056,421
Legal and professional fees	82,719	896,350	11,418	10,234	1,000,721	604,281	183,713	-	1,788,715
Marketing	11,055	16,036	-	10,952	38,043	1,937	13,382	-	53,362
Special events	-	-	-	-	-	-	-	97,361	97,361
Office expenses	16,826	10,640	1,718	3,031	32,215	3,329	1,781	-	37,325
Occupancy expenses	370,089	2,362,600	353,894	11,492	3,098,075	469,363	19,523	-	3,586,961
Printing and postage	7,848	476	1,427	103	9,854	4,178	3,134	-	17,166
Property taxes	465	523,714	-	-	524,179	78,363	-	-	602,542
Other	92,815	111,073	2,257	400	206,545	18,922	10,591	-	236,058
Supplies and materials	37,755	271,687	36,702	1,549	347,693	25,570	1,085	-	374,348
Telephone	49,090	48,909	7,868	3,824	109,691	13,908	6,073	-	129,672
Travel	35,158	79,700	13,618	656	129,132	2,209	625	-	131,966
Depreciation and amortization	9,651	2,011,745	33,203	-	2,054,599	516,470	57,072	-	2,628,141
Total expenses	7,497,342	14,400,648	6,934,583	1,823,848	30,656,421	4,319,282	948,684	97,361	36,021,748
Less expenses included with revenues on the consolidated statement of activities									
Special events	-	-	-	-	-	-	-	(97,361)	(97,361)
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 7,497,342</u>	<u>\$ 14,400,648</u>	<u>\$ 6,934,583</u>	<u>\$ 1,823,848</u>	<u>\$ 30,656,421</u>	<u>\$ 4,319,282</u>	<u>\$ 948,684</u>	<u>\$ -</u>	<u>\$ 35,924,387</u>

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2021

Cash flows from operating activities	
Change in net assets	\$ (4,242,187)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	2,727,605
Amortization of tax credit fees	55,673
Amortization of debt issuance costs	42,698
Gain on forgiveness of Paycheck Protection Program	(1,283,300)
Loss on uncollectible receivables from related entities	137,319
Loss on equity in earnings of unconsolidated entities	327,652
Loss on impairment of real estate	1,186,973
Loss on impairment of investments in unconsolidated entities	530,019
Changes in operating assets and liabilities	
Grants receivable	122,064
Rents receivable, net	(122,012)
Contributions receivable	100,000
Receivables from related entities	(4,181)
Insurance claims receivable	(267,207)
Prepaid and other assets	77,883
Accounts payable to unrelated entities	1,058,221
Accounts payable to related entities	36,822
Accrued expenses and other liabilities	(756,736)
Agency liability	82,943
Net cash used in operating activities	<u>(189,751)</u>
Cash flows from investing activities	
Purchase of property and equipment	(988,666)
Distributions from investment in unconsolidated entities	14,881
Cash contributed to Forest Forward	(933,529)
Net cash used in investing activities	<u>(1,907,314)</u>
Cash flows from financing activities	
Payments on notes payable	(555,739)
Proceeds from notes payable	378,005
Payments on line of credit	(450,000)
Proceeds on line of credit	300,000
Noncontrolling distributions of equity	(42,443)
Net cash used in financing activities	<u>(370,177)</u>
Net decrease in cash, cash equivalents and restricted cash	(2,467,242)
Cash, cash equivalents and restricted cash, beginning of year	<u>12,371,662</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>\$ 9,904,420</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
 Consolidated Statement of Cash Flows
 For the Year Ended December 31, 2021

Cash, cash equivalents and restricted cash consisted of the following:

Cash and cash equivalents	\$ 3,357,711
Cash held for agency	3,160,491
Restricted deposits and reserves	<u>3,386,218</u>
	<u>\$ 9,904,420</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 997,524
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Supplemental schedule of noncash investing and financing activities

Property and equipment contributed to Forest Forward	\$ 3,534,995
Extinguishment of liabilities to Forest Forward	\$ 4,468,524

The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

1. NATURE OF OPERATIONS

Nature of operations

CitySquare (the Organization) is a Texas nonprofit corporation organized in 1990 under Section 501(c)(3) of the Internal Revenue Code that provides a number of services to the East and South Dallas communities as well as Abilene and Paris, Texas. Aiming to address all aspects of poverty, CitySquare hosts a long list of programs including:

HOPE - This program is driven by a belief that people are good and want an opportunity to do better. That belief is where hope starts. Hope programs include services such as low-cost legal services, job training and placement services for the unemployed, and programs for youth aging out of foster care.

HOUSING - This program fights the growing problem of homelessness by advocating for homeless neighbors, creating communities that support transitional and permanent housing, and integrating programs for neighbors with increasingly diverse needs.

HUNGER - This program combats hunger to increase the quality and quantity of nutritious food available to neighbors. Hunger services include a full-service hunger relief food pantry in Dallas County, along with after-school and summer food programs.

HEALTH - This program's initiatives aim to improve access to healthcare. The work of this program is based at the CitySquare Community Clinic in South Dallas, where a team of medical professionals provide the local community with a permanent medical home.

These activities are funded primarily through private and public foundations, individual contributions, federal and state grants, and rental income.

Principles of consolidation

All significant inter-organizational transactions have been eliminated in the accompanying consolidated financial statements. The consolidated financial statements include the financial statements of CitySquare and the following:

- *CitySquare Arts Opportunity Center, LLC ("Arts Opportunity Center")* - A Texas nonprofit corporation created in 2017 with CitySquare operating as the sole member. The Arts Opportunity Center was created to facilitate the purchase of the former Forest Theater area and the development of the Purpose Built Community. Effective January 1, 2021 CitySquare assigned 100% of the membership interests to Forest Forward, a Texas nonprofit organization. Therefore, the Arts Opportunity Center is no longer consolidated within CitySquare.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

1. NATURE OF OPERATIONS (continued)

Principles of consolidation (continued)

- *CitySquare Housing Denver, LLC ("CitySquare Denver")* - A Texas nonprofit corporation created in 2017 with CitySquare operating as the sole member. CitySquare Denver was created to buy land in Denver, Colorado with the future vision of a CitySquare supported housing program in the Denver area. CitySquare Denver is consolidated within CitySquare in the consolidating schedules. The property acquired under CitySquare Denver was sold during the year ending December 31, 2020. CitySquare Denver had no other transactions, assets, or liabilities for the year ended December 31, 2021.
- *CitySquare Housing ("Housing")* - Housing was founded in 2001 as a Texas nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code to provide affordable housing in Dallas, Texas by anchoring capital locally through the development of residential and commercial property. The following entities are consolidated with Housing in the accompanying consolidated financial statements and are discussed separately in the notes and supplementary information:
 - *CityWalk at Akard Master Condominium Association, Inc. ("MCA")* - CityWalk is a multi-use fifteen story building in downtown Dallas with commercial, residential, and condominium units owned by individuals. MCA was established to pay and charge common building expenses to Akard Walk Commercial, LLC, Akard Walk Residential, LLC and Akard Walk Condo, LLC.
 - *Akard Walk Commercial, LLC ("Commercial")* - Formed to develop, construct, own, maintain, and operate floors one through three and the parking facilities of the CityWalk building for commercial tenants.
 - *Akard Walk Residential, LLC ("Residential")* - Formed to develop, construct, own, maintain, and operate floors four through fourteen for residential tenants in the CityWalk building.
 - *St. Anne's Hospital, LLC ("St. Anne's")* - Formed to redevelop the former St. Anne Hospital in Abilene, Texas into a multi-unit housing complex for the formerly homeless.
 - *TEOF ("TEOF")* - Formed to enhance communities and establish economic opportunities in Dallas, Texas through the creation of opportunities for employment of and housing for low-income workers.
 - *Wynnewood Family Housing, LP ("WFH")* - Formed to construct, develop and operate a 161-unit apartment project for low-income families known as High Point Family Apartments in Dallas, Texas.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

1. NATURE OF OPERATIONS (continued)

Principles of consolidation (continued)

- *Wynnewood Seniors Housing GP, LLC ("WSH")* - The general partner entity of Wynnewood Seniors Housing, LP and WCH Limited Partnership. Wynnewood Seniors Housing, LP was formed to acquire, construct and develop a 140-unit apartment project for low-income senior citizens known as High Point Senior Living in Dallas, Texas. All activity for Wynnewood Seniors Housing, LP has been consolidated within. The activity of WCH Limited Partnership has been recorded as an equity investment.

The following limited liability companies, in which Housing is the sole member, are consolidated within Housing and are not discussed separately in the consolidated financial statements, notes, or supplementary information:

- *Akard Walk Commercial GP, LLC* - The general partner entity of Akard Walk Commercial, LLC.
- *Akard Walk Residential GP, LLC* - The general partner entity of Akard Walk Residential, LLC.
- *Wynnewood Family Housing GP, LLC* - The general partner entity of Wynnewood Family Housing, LP.

CitySquare and subsidiaries are collectively referred to herein as "the Organization".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - These are resources that are not subject to donor-imposed restrictions and can be used for the general operations of the Organization. The Organization's governing board may designate net assets without restrictions for specific purposes.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and presentation (continued)

- *Net assets with donor restrictions* - These are resources that are subject to donor-imposed restrictions that may be met, either by actions of the Organization and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There are no net assets restricted in perpetuity as of December 31, 2021.

Noncontrolling interests

The noncontrolling interests represent the aggregate balance of Limited Partner and Investor Member equity interests in consolidated entities that are not wholly-owned by Housing.

Cash and cash equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short-term maturities of those financial instruments.

Restricted deposits and reserves

Restricted deposits and reserves represent escrow accounts, pledged deposits and reserves required by mortgage loans and operating agreements, and tenant security deposits. Certain lenders and operating agreements require monthly deposits for replacement reserves, insurance, and real estate taxes which are controlled by lenders.

Rents receivable

Rents receivable from tenants that are expected to be satisfied within one year after year-end are reported net of an allowance for doubtful accounts of \$7,306 as of December 31, 2021. Management's estimate of allowance is based on historical collection experience and a review of these receivables. Uncollectible receivables are charged to bad debt expense upon management's assessment that further collection attempts will be unsuccessful.

Receivables from related entities

Receivables from related entities represent amounts owed to Housing from entities that are considered related parties due to either ownership or control. See Note 12 for further disclosure of related party transactions. The Organization recorded a loss on uncollectible receivables from related entities within the accompanying financial statements of \$137,319 during the year ending December 31, 2021. As a result, management considers the remaining receivables at December 31, 2021 to be fully collectible. Accordingly, no allowance was recorded in the accompanying consolidated financial statements.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance claims receivable

During the year ended December 31, 2021, the Housing properties incurred damages related to insurable losses and therefore recognized an insurance claim receivable of \$267,207 in the accompanying statement of financial position for the amount expected to be received.

Investment in other entities

Investment in unconsolidated entities accounts for the activity of the Organization recorded under the equity method. See Note 5 for further detail. Investments in consolidated entities have been eliminated in the consolidated financial statements.

Impairment of investments

The Organization reviews its investments in unconsolidated entities each reporting period to determine whether there are identified events or circumstances that would indicate there is a decline in the fair value that would be considered other than temporary. If an investment is deemed to have experienced an other-than-temporary decline below its cost basis, the Organization reduces the carrying amount of the investment to its estimated fair value and establishes a new cost basis for the investment. The Organization presents any such impairment in the other income/(expense) and gains/(losses) section of the accompanying consolidated statement of activities.

Subsequent to year-end, Housing agreed to sell their membership interests in Hamilton Atmos GP LLC ("HAGP") and TEOF Hotel. Accordingly, Housing retrospectively recognized an impairment loss of \$530,019 related to the investments in HAGP and TEOF Hotel. The associated investments are classified as held for sale on the accompanying statement of financial position for \$575,892. See Note 5 for more detail.

Equity method accounting

The Organization uses the equity method to account for investments in which it owns a more-than-minor noncontrolling interest with the ability to exert significant influence over the investee. Under the equity method, the investment is originally recorded at cost and is adjusted annually to recognize the Organization's proportionate share of investee earnings or losses which is presented within loss on equity in unconsolidated entities in the accompanying consolidated statement of activities.

Cost method accounting

The Organization uses the cost method to account for investments in which it owns a minor noncontrolling interest without the ability to exert significant influence over the investee. Under the cost method, the investment is originally recorded at cost, and investment earnings are recognized by the Organization when declared by the investee.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax credit fees

Tax credit fees are amortized using the straight-line method over the fifteen-year tax credit compliance period. At December 31, 2021, cumulative tax credit fees were \$832,263 and accumulated amortization was \$420,525. Amortization expense was \$55,673 for the year ended December 31, 2021.

Property and equipment

Property and equipment are recorded at cost, or if donated, at their estimated fair value at the date of donation. Such donations are recorded as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. Presently, the Organization does not have any assets which have related donor-imposed restrictions.

The Organization's policy is to capitalize all expenditures for property and equipment in excess of \$5,000 per unit. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 40 years. Maintenance and repairs are charged to expense when incurred. Significant renovations and replacements, which extend the estimated useful life of an asset, are capitalized.

The estimated useful lives are as follows:

Land improvements	15 - 20 years
Buildings and leasehold improvements	15 - 40 years
Furniture and equipment	3 - 10 years
Software	5 years
Vehicles	5 years

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

The Organization assesses long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is assessed by comparing the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset and any estimated proceeds from the eventual disposition of the asset. If such assets are impaired, the impairment to be recognized is measured as the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. Subsequent to year-end, Housing decided to cease its development activity on a real estate project under development and agreed to sell or abandon the properties. Accordingly, Housing retrospectively recognized an impairment loss of \$1,186,973 within the accompanying financial statements. The associated real estate is classified as held for sale on the accompanying statement of financial position for \$340,417.

Pre-development project costs

Housing incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial stages of development. These costs include items such as market studies, purchase options, environmental studies, and legal and accounting fees. These costs, as incurred, are capitalized within property and equipment on the accompanying consolidated statement of financial position and recorded as pre-development project costs until the project is either abandoned or becomes an approved project with independent funding sources. Pre-development project costs are charged to operations at the time a potential project is no longer considered desirable or feasible. There are no pre-development costs recorded at December 31, 2021.

Agency fund

Within the "Cash held for agency" asset account and the liability account "Agency liability" in the consolidated statement of financial position are funds received by the Organization on behalf of the agency it serves. The Organization's policy is to recognize the funds received and an offsetting liability until the funds are distributed to the ultimate beneficiary, at which time the asset and liability are removed from the Organization's books.

Debt issuance costs

Debt issuance costs in connection with financing agreements are amortized over the life of the related debt utilizing the straight-line method, which approximates the effective interest method. Debt issuance costs are amortized to interest expense over the terms of the respective debt. Debt issuance costs are presented as a reduction of notes payable in the accompanying consolidated statement of financial position. At December 31, 2021, debt issuance costs net of accumulated amortization were \$396,854. Amortization expense for the debt issuance costs was \$42,698 during the year ended December 31, 2021.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent note payable

The Organization received a conditional funding agreement from a foundation for certain costs related to a food recovery program. The Organization borrowed funds from the foundation in the form of a contingent note payable. Once evidence is provided to the foundation that the Organization has overcome the performance barrier of providing the required number of meals and/or pounds of food, the Organization will qualify for loan forgiveness. As such, the Organization has recorded a short-term non-interest bearing note payable for all payments received from the foundation. Management has determined the imputed interest of this short-term note is not material to the accompanying consolidated financial statements and therefore no imputed interest has been recorded for the year ended December 31, 2021 in connection to this contingent note payable.

Revenue recognition

Revenues from fundraising events are recognized when the events are held as the performance obligation is simultaneously received and consumed at the time of the event. Interest income is recognized when earned based on the passage of time. Program revenue represents income earned from neighbors and other sources that is simultaneously received and consumed by the participants; therefore, the revenue is recognized ratably over the course of the program. Rental income, principally from short-term leases on apartment units and long-term leases for commercial space, is recognized as the rentals become due. Advance receipts of revenue are deferred and classified within accrued expenses and other liabilities until earned.

Contributions and promises to give

The Organization recognizes contributions when they are received or unconditionally pledged and records these amounts as net assets without donor restrictions or net assets with donor restrictions according to donor stipulations that limit the use of these assets due to time or purpose restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the contribution as net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions expected to be collected in less than one year are reported at net realizable value. Contributions that are promised in one year but are not expected to be collected until after the end of the year are discounted at an appropriate rate. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Any allowance for doubtful contributions receivable is provided based on management's judgment including such factors as prior collection history, type of contribution, and current aging of contributions receivable. As of December 31, 2021, the Organization did not have any contributions receivable.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give (continued)

Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues to the extent of disbursements and commitments that are allowable for reimbursement. Grants receivable represent these pending reimbursements of allowable expenses incurred as of December 31, 2021 and expected to be received from funding sources in the subsequent year. Management considers such receivables at December 31, 2021 to be fully collectible. Accordingly, no allowance for grants receivable was recorded in the accompanying consolidated financial statements.

Conditional promises to give are not included in contributions or contributions receivable until such time as the conditions are substantially met. The Organization had \$500,000 in conditional contributions not recorded within the accompanying financial statements related to the assumption of a note payable which was conditioned upon certain requirements. See Note 8 for more detail. Additionally, the Organization has an outstanding conditional note payable for \$68,315. The Organization also receives federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with the underlying grant or contract. The Organization has received cost-reimbursable grants of approximately \$7,714,000 that have not been recognized at December 31, 2021 because qualifying expenditures have not yet been incurred.

In-kind contributions

The Organization's policy is to recognize in-kind goods when donated as revenue at fair value in the period such contributions are made. Donated food was valued at \$1.79 per pound in 2021, based on a cost study conducted for Feeding America during each fiscal year. Contributed professional services are recognized if the services create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization also recognizes interest forgiveness on debt within in-kind contributions. The amount of interest forgiven for the year is recorded as part of interest expense and in-kind contributions at the value of the interest that would have otherwise been required for payment. See Note 10 for more detail of in-kind contributions.

Tenant subsidy payments

A portion of rental income received by Housing is in the form of subsidy payments under Section 8 of the National Housing Act. Section 8 is a program under the United States Department of Housing and Urban Development (HUD) whose objective is to provide rental assistance to help very-low and low-income families afford decent, safe, and sanitary rental housing. In doing so, housing assistance payments are provided to subsidize rent payments for qualifying housing units that approved low-income tenants occupy. Housing receives these Section 8 housing assistance payments from the Dallas Housing Authority (the Public Housing Authority awarded the Section 8 funding through HUD).

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction management and developer fees

Construction management and developer fees are earned by Housing during the construction period based on the percentage of completed construction, or other terms of the related agreements. Fees are capitalized to construction and recognized as revenue when earned and paid from investor equity or project debt. Earned fees not paid from investor equity or project debt are eliminated in consolidation within partnership and asset management fees.

Functional allocation of expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain expenses have been allocated among the various programs and supporting services benefited. Certain administrative expenses are allocated on a pro-rata basis. Salaries and benefits and certain contract services are allocated based on estimates of time and effort. Various occupancy costs are allocated on a square footage basis.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. The Organization did not report any taxable unrelated business income for the year ended December 31, 2021. The Organization's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts and circumstances existing at the time. The Organization uses a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. To the extent that the Organization's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Organization reports tax-related interest and penalties, if applicable, as a component of income tax expense as incurred. As of December 31, 2021, Housing has identified uncertain tax positions in previously filed tax returns but does not anticipate those positions to have a material adverse effect on its operations.

The limited partnerships and limited liability companies consolidated within the Organization have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners on their respective income tax returns. Accordingly, these consolidated financial statements do not reflect a provision for income taxes. Income tax returns filed by the entities are subject to examination by the IRS for a period of three years.

St. Anne's is considered a disregarded entity for tax purposes and is included on Housing's exempt tax return. CitySquare Denver is considered disregarded entity for tax purposes and is included on CitySquare's exempt tax return.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates, included in the consolidated financial statements, relate primarily to the useful lives applied in asset depreciation, estimates of the values of in-kind contributions, impairment of investments in unconsolidated entities, impairment of real estate, as well as the allocation of functional expenses.

3. LIQUIDITY AND FUNDS AVAILABLE

The following is a quantitative disclosure which describes assets that are available or expected to be available within one year of December 31, 2021 to fund general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 3,357,711
Cash held for agency	3,160,491
Restricted deposits and reserves	3,386,218
Federal and state grants receivable	910,449
Rents receivable, net	627,218
Receivables from related entities	50,641
Insurance claims receivable	267,207
	<u>11,759,935</u>
Less amounts unavailable for general expenditure within one year:	
Cash held within an agency fund	(3,160,491)
Restricted deposits and reserves	(3,386,218)
Donor imposed restrictions	(585,547)
	<u>(7,132,256)</u>
Financial assets available for general expenditure within one year	<u>\$ 4,627,679</u>

The Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

As stated in Note 7 to the financial statements, the Organization has lines of credit, which it could draw upon in the event of a liquidity need.

Cash and cash equivalents held at individual operating entities within Housing are unavailable for use outside the respective entity. In addition to the financial assets available to meet cash needs for general expenditures within one year outlined above, certain Housing consolidating entities have access to certain operating reserves within restricted deposits and reserves in the event of an unanticipated liquidity need. Disbursements from these operating reserves require approval of the lender and the investor partner in most instances.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

4. RESTRICTED DEPOSITS AND RESERVES

Restricted deposits and reserves consisted of the following:

Reserves for operating deficits and replacements	\$ 2,623,769
Security deposits	134,219
Insurance and real estate tax escrows	<u>628,230</u>
	<u>\$ 3,386,218</u>

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES

Housing owns a 7.94% membership interest in HAGP that constitutes a more-than-minor noncontrolling interest with the ability to exert significant influence and is accounted for under the equity method in accordance with GAAP. During the year ended December 31, 2021, Housing received a distribution of \$14,881 from HAGP decreasing their investment in HAGP to \$605,911. Subsequent to year-end, Housing agreed to sell its 7.94% membership interest in HAGP for \$565,892 and accordingly retrospectively recognized an impairment loss of \$40,019 within the accompanying financial statements. The investment in HAGP is recorded as an investment held for sale in the accompanying statement of financial position at December 31, 2021.

Housing owns a 10% limited partnership interest in TEOF Hotel that represents a minor noncontrolling interest and is accounted for using the cost method in accordance with GAAP. Subsequent to year-end, TEOF reorganized to a non-member organization and accordingly Housing agreed to sell its 10% limited partnership interest in TEOF Hotel for \$10,000 and accordingly retrospectively recognized an impairment loss of \$490,000 within the accompanying financial statements. The investment in TEOF Hotel is recorded as an investment held for sale in the accompanying statement of financial position at December 31, 2021.

During the year ended December 31, 2021, Housing became a 1% owner in WCH Limited Partnership ("WCH"), an equity method investment to WSH. The investment in WCH constitutes a more-than-minor noncontrolling interest and is accounted for using the equity method in accordance with GAAP. Housing recorded a loss on equity in earnings of unconsolidated entities of \$327,652 for its interest in WCH for the year ended December 31, 2021. As the interest in WCH's losses has reduced the equity investment below zero, the Organization has reported the equity investment in WCH as a liability within the accompanying statement of financial position at December 31, 2021.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 6,705,884
Land improvements	4,101,622
Buildings	77,348,662
Leasehold improvements	6,546,257
Furniture and equipment	3,775,692
Software	845,713
Vehicles	<u>468,216</u>
	99,792,046
Accumulated depreciation and amortization	<u>(25,386,968)</u>
	<u>\$ 74,405,078</u>

Depreciation and amortization expense for the year ended December 31, 2021 was \$2,727,605. A portion of depreciation and amortization associated with the Opportunity Center is allocated to occupancy on the consolidated statement of functional expenses based on the underlying programs benefited.

7. LINES OF CREDIT

CitySquare has multiple lines of credit outstanding with certain financial institutions as of December 31, 2021.

One line of credit is determined monthly based on 95% of the balance held in CitySquare's associated savings account with the same financial institution. The line of credit is subject to annual renewal and interest is payable at the corresponding liquidity access line index plus 1.75%. The line of credit had no outstanding balance as of December 31, 2021.

The second line of credit was obtained in March 2020. The revolving line of credit has a maximum borrowing of \$500,000. Interest is charged at a variable rate based on the Wall Street Journal prime rate plus 1.25%, currently at 4.5%. The line of credit is secured by accounts, chattel paper and general intangibles of the Organization. Additionally, it is cross-collateralized against all obligations, debts and liabilities of CitySquare. The line of credit was renewed at maturity in March 2021 under the same conditions with a new maturity date of March 11, 2022. The line of credit had no outstanding balances as of December 31, 2021.

The third line of credit was obtained in November 2020. The line of credit has a maximum borrowing of \$850,000, of which \$100,000 is reserved for Corporate credit cards and the remaining \$750,000 is a revolving line of credit. Interest is charged at a variable rate based on a rate index set by BOK Financial Corporation, currently at 6.0%. The line of credit is secured by all inventory and equipment of the Organization. The line of credit is payable in full on the Lender's demand or otherwise at the maturity date of November 13, 2021. The line of credit had no outstanding balances as of December 31, 2021.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

8. NOTES PAYABLE

Notes payable are detailed as follows:

Mortgage loan secured by WFH real estate that bears interest at 5.68% and is payable in monthly payments of principal and interest based on a 30-year amortization schedule. The loan matures in 2035.	\$ 5,342,304
Permanent loans from governmental entities that bear no interest and mature through 2030. These loans are secured by Residential's real estate and are payable from surplus cash as defined.	5,555,138
Mortgage loan secured by Residential's real estate, which bears interest at 7.79% and is payable in monthly installments of principal and interest based on a 30-year amortization schedule. The loan matures in 2029.	3,781,657
Loan secured by Commercial's real estate from a bank requiring monthly payments of principal and interest at Wall Street prime plus .5% (3.75% at December 31, 2021) and maturing in 2040.	3,333,593
Mortgage loan secured by WSH real estate that bears interest at 6.18% and is payable in monthly installments of principal and interest based on a 30-year amortization schedule. The loan matures in 2033.	2,091,927
Loan secured by Housing real estate from a bank which bears interest at 4.25% and is payable in monthly installments of principal and interest based on a 20-year amortization schedule. The loan matures in 2042.	836,423
Unsecured investment bond by Housing from bank that bears interest at 2% with interest due monthly. The loan matures in 2024.	2,000,000
Construction loan from third-party for CitySquare. All interest is waived and thus recorded as imputed interest revenue in the consolidated statement of activities. The loan matures in 2027.	547,734
Unsecured loan by CitySquare from an investment fund that bears interest at 3% with interest due quarterly. The loan is payable in interest only payments through December 1, 2026 with annual principal payments of \$100,000 starting December 1, 2026 through December 1, 2030. Subsequent to December 31, 2021, this obligation was assumed by another organization. See Note 15 for more information.	500,000
Conventional loan by CitySquare to finance purchase of building secured by the deed of trust on the underlying building. The loan bears interest at 3.75% per annum. All principal and interest is due on maturity on November 30, 2022.	320,000
	<u>24,308,776</u>
Less unamortized debt issuance costs	<u>(396,854)</u>
	<u>\$ 23,911,922</u>

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

8. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2022	\$ 778,193
2023	478,792
2024	2,499,353
2025	671,505
2026	451,249
Thereafter	<u>19,429,684</u>
	<u><u>\$ 24,308,776</u></u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Scholarships	\$ 81,031
Program grants	<u>504,516</u>
	<u><u>\$ 585,547</u></u>

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Scholarships	\$ 20,000
Program grants	163,991
Capital projects	65,843
Time restricted	<u>100,000</u>
	<u><u>\$ 349,834</u></u>

10. IN-KIND CONTRIBUTIONS

The estimated fair value of donated food, facilities, materials and supplies are recorded as contributions. The Organization received contributed professional services during the year from medical, legal and social work professionals in connection with their program services. The Organization also receives interest forgiveness on a note payable and accordingly records the in-kind contribution for the amount relating to imputed interest.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

10. IN-KIND CONTRIBUTIONS (continued)

In-kind contributions received during the year were as follows:

Donated professional services	\$ 998,203
Donated food	4,623,328
Donated facilities	348,582
Donated materials and supplies	530,222
Imputed interest	<u>48,313</u>
	<u><u>\$ 6,548,648</u></u>

11. EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) Savings Incentive Match Plan (the "Plan") for its employees. Substantially all employees are eligible to participate in the Plan. The Organization may apply limits per payroll period. As such, its percentage match of the employee compensation is discretionary.

The Organization's matching contribution charged to expense was \$137,678 for the year ended December 31, 2021.

12. RELATED PARTY TRANSACTIONS

The Organization has numerous transactions with related parties providing development, construction financing, property management and administrative services to assist Housing in carrying out its affordable housing mission. In certain situations, Housing advances funds to related parties to pay operating costs. The Organization's related party transactions are as follows:

- Alliant, Ltd. and affiliates are administrative and investor members of Residential. Bridge loan financing of \$4,733,247 was provided by Alliant, Ltd. to close the Residential mortgage loan. The bridge loan bore interest at 10% and converted to equity when Residential met certain conversion conditions. Conversion took place as of December 22, 2015, at which time accrued interest totaled \$1,794,690. The interest is due at the end of the fifteen-year tax credit compliance period in July 2023 unless certain conditions are met that could result in forgiveness of the interest. Residential released certain reserves aggregating \$155,758 to Alliant, Ltd. on February 16, 2018 as repayment of accrued interest. Accrued interest on the bridge loan totaled \$1,638,965 at December 31, 2021.
- Alliant, Ltd. earned asset management fees from Residential of \$11,957 in 2021. Unpaid asset management fees were \$6,077 at December 31, 2021.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

12. RELATED PARTY TRANSACTIONS (continued)

- CityWalk is a multi-use fifteen story building in the Dallas, Texas Central Business District with the following ownership structure: floors one through three and parking facilities are owned by Commercial; floors four through fourteen are owned by Residential; and the fifteenth floor consists of six condominium units owned by individuals. MCA was established to pay and charge common building expenses to Commercial, Residential, and CityWalk at Akard Residential Loft Condominium Association (LOFT), a homeowner's association for the condominiums. Two of the condominiums are owned by the former Housing President who also serves on Housing's board, and one condominium is owned by an individual who was a Housing board member through December 11, 2018. Housing had receivables of \$50,641 for operating expenses from the LOFT at December 31, 2021.
- WFH pays partnership management fees to Bank of America Community Development Corporation (BACDC), a limited partner in WFH. Partnership management and asset management fees payable to BACDC by WFH are \$41,250 at December 31, 2021.
- TEOF Hotel is a subsidiary of TEOF, 10% owned by TEOF and 90% owned by Hamilton 1011 LP (1011LP), which owns a 237-room hotel project known as the Lorenzo Hotel. A former Housing board member is the majority owner of 1011LP. TEOF earned developer fees of \$235,978 upon completion of the Hotel in 2017, of which \$137,319 was outstanding at December 31, 2020. The full amount outstanding has been deemed uncollectible and accordingly a loss of \$137,319 is recorded within the accompanying financial statements. In addition, the related investment in TEOF Hotel is classified as held for sale on the accompanying statement of financial position at the estimated sales price of \$10,000.
- On June 15, 2011, Housing executed a \$1,600,000 promissory note (the Note) with Atmos LIHTC LLC (Atmos), an entity in which a former Housing board member and their family member have a direct controlling financial interest and a former member of Housing management has an direct non-controlling financial interest. Atmos was formed to develop certain affordable housing units located in Dallas County commonly known as the Lone Star Gas Lofts project.

The Note bears interest at 5.5% per year and matures on January 1, 2033 and is secured by a subordinated deed of trust in certain Lone Star Gas Loft property. The Note requires annual principal and interest payments commencing January 1, 2013 payable solely from 25% of the Net Cash Flows (as defined in the Amended and Restated Atmos LIHTC LLC Operating Agreement date June 1, 2011) from the prior fiscal year in excess of \$100,000. In the event of insufficient available Net Cash Flow to fully pay a scheduled payment, the deficiency accrues to the Note balance in accordance with the Note agreement.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

12. RELATED PARTY TRANSACTIONS (continued)

As of December 31, 2021, no payments have been made on the Note due to insufficient Net Cash Flows in each annual period commencing January 1, 2013. Prior to December 31, 2021, Housing determined that the likelihood of collecting repayment of the Note is remote and therefore, fully reserved all amounts due under the Note.

- On January 14, 2015, Housing was admitted as a variable interest member in Hamilton Atmos GP LLC (HAGP), an entity in which a former Housing board member and their family member have a direct controlling financial interest, and a former member of Housing management has an direct non-controlling financial interest. HAGP was formed to develop certain affordable housing units located in Dallas County commonly known as the Lone Star Gas Lofts project.

Housing's membership interest levels in HAGP are dependent upon the completion of certain transactional events as follows: 2.12% upon the completion of Housing contributing to HAGP certain City of Dallas Tax Increment Financing funds (TIF Tranche 1), an additional 4.00% upon the completion of Housing contributing to HAGP proceeds from the sale of certain State of Texas Historic Tax Credits (HTC), and a final 1.82% upon the completion of Housing contributing to HAGP certain City of Dallas Tax Increment Financing funds (TIF Tranche 2).

- As disclosed in Notes 5 and 15, in April 2022 Housing agreed to sell its 7.94% share in HAGP and the \$1,600,000 promissory note receivable from Atmos to the family member of a former Housing board member for \$565,892. Additionally, Housing and Housing's board member (who is the executive director of TEOF) agreed to reorganize TEOF as a non-member organization and therefore, TEOF will be removed as a consolidated entity within Housing effective subsequent to year-end. The reorganization includes TEOF's agreement to sell its 10% limited partnership interest in TEOF Hotel to the same family member of the former Housing board member for \$10,000. The reorganization also includes TEOF's agreement to transfer cash of \$102,526 and contribute its working capital loans due from Housing of \$1,040,150 to Housing in return for forming a partnership to develop an affordable housing development with TEOF as the majority partner and Housing as a 9.9% partner. The working capital loans bear no interest, mature in 2038 and are eliminated in consolidation as of December 31, 2021.

13. COMMITMENTS AND CONTINGENCIES

Future minimum rents

Commercial leases office space to tenants under net operating leases. All of the leases are non-cancelable and expire on various dates through 2026.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

13. COMMITMENTS AND CONTINGENCIES (continued)

Future minimum rents (continued)

The future contractual minimum lease payments to be received (excluding operating expense reimbursements) by Housing, under non-cancelable operating leases are as follows:

Year ending December 31,

2022	\$	154,518
2023		114,977
2024		116,136
2025		92,172
2026		<u>4,923</u>
	<u>\$</u>	<u>482,726</u>

Guarantees

Housing has guaranteed loan funds to certain limited liability companies and partnerships if they incur operating deficits as defined in the respective partnership or operating agreements. These guarantees expire at various dates through 2026 upon the expiration of the operating or partnership agreements. Loans made pursuant to these guarantees are generally interest-free and unsecured.

Housing has agreed to provide tax indemnification in the event of low-income housing or historical tax credit recapture to certain limited liability companies and partnerships in which Housing or an affiliate is the general partner. The potential liability under these agreements is dependent upon IRS audits and final letters of determination of the qualified basis in the tax credit properties. Housing's management is not aware of any known liability related to tax credit recapture.

Grant and property use restrictions

Many of the properties owned and operated by Housing and its subsidiaries were developed using funds from grants and restricted, low interest rate loans. The terms of these grants and loans restrict the use of the property and generally require that it be rented to low-income qualified tenants for the period of the grant or related loan term. Failure to comply with the terms of the grant or the loans would result in a requirement to repay a portion or all of the funding.

Rental assistance contracts

Some of the properties owned by Housing and its subsidiaries have entered into rental assistance contracts with HUD through the DHA, as described in Note 2. These contracts have various terms and require the projects to operate as low-income housing properties and to obtain HUD approval of all rent increases.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

13. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

The Organization are periodically involved as defendants in claims and litigation relating to a variety of matters. Some claims may be recovered from insurance reimbursements. Although the ultimate disposition of asserted claims cannot be predicted with certainty, management believes that the outcome of any such claims will not have a material adverse effect on the consolidated financial position of the Organization. Accruals are recorded for any claim that arises whenever it is probable that the Organization is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated.

14. CONCENTRATION OF CREDIT RISK

The Organization's cash accounts are subject to concentrations of credit risk. The Organization maintains its cash deposits in accounts at various financial institutions, which may exceed the federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account category per financial institution. Management believes that any credit risk exposure is mitigated by the financial strength of the banking institutions in which the deposits are held. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant credit risk.

Real estate owned by Housing is geographically concentrated in the metro Dallas area. As a result, real estate held by Housing is subject to market volatility from changes in economic conditions or real estate values in the metro Dallas market. However, Housing has not experienced any losses with respect to such volatility, and therefore believes that geographic concentration poses no significant financial risk.

For the year ended December 31, 2021, the U.S. Department of Housing and Urban Development contributed approximately 18% of the total contributions and grants for the year ended December 31, 2021.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 19, 2022, the date which the financial statements were available for issue.

- Effective January 12, 2022, the Organization renewed their \$850,000 line of credit with a maturity date of January 12, 2023, with the same conditions as the previous line of credit that expired in November 2021.
- Effective March 21, 2022, the Organization renewed their \$500,000 line of credit with a maturity date of March 20, 2023, with the same conditions as the previous line of credit that expired in March 2022.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

15. SUBSEQUENT EVENTS (continued)

- In March 2022, the Organization executed an Assumption and Release Agreement with Forest Forward, whereby Forest Forward assumed responsibility for the \$500,000 loan and performance obligations related to the unsecured loan discussed in Note 8.
- In April 2022, TEOF became a non-member organization and therefore became unconsolidated within Housing. As part of the reorganization TEOF sold its 10% limited partnership interest in TEOF Hotel for \$10,000. The associated impairment on the investment in TEOF Hotel is reflected in the December 31, 2021 financial statements as discussed in Note 5.
- As part of the aforementioned TEOF re-organization, TEOF agreed to transfer cash of \$102,526 and contribute its working capital loans due from Housing of \$1,040,150 to Housing in return for forming a new partnership to develop an affordable housing development. TEOF is the majority partner and Housing is a 9.9% limited partner in the new partnership.
- In April 2022, Housing sold its 7.94% membership interest in HAGP and its \$1,600,000 promissory note receivable for \$565,892. The associated impairment on the investment in HAGP is reflected in the December 31, 2021 financial statements as discussed in Note 5.

The Organization determined that no additional disclosures were required.

SUPPLEMENTARY INFORMATION

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Financial Position
December 31, 2021

ASSETS

	<u>CitySquare</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
Cash and cash equivalents	\$ 1,930,856	\$ 1,426,855	\$ -	\$ 3,357,711
Cash held for agency	3,160,491	-	-	3,160,491
Restricted deposits and reserves	19,820	3,366,398	-	3,386,218
Federal and state grants receivable	910,449	-	-	910,449
Rents receivable, net	-	627,218	-	627,218
Receivables from related entities	46,196	50,641	(46,196)	50,641
Notes receivable	3,738,603	-	(3,738,603)	-
Insurance claims receivable	-	267,207	-	267,207
Prepaid and other assets	472,891	288,994	-	761,885
Tax credit fees, net	-	411,738	-	411,738
Investments held for sale	-	575,892	-	575,892
Real estate held for sale	-	340,417	-	340,417
Property and equipment, net	<u>12,389,234</u>	<u>61,670,232</u>	<u>345,612</u>	<u>74,405,078</u>
 Total assets	 <u>\$ 22,668,540</u>	 <u>\$ 69,025,592</u>	 <u>\$ (3,439,187)</u>	 <u>\$ 88,254,945</u>

LIABILITIES AND NET ASSETS

	<u>CitySquare</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
Liabilities				
Accounts payable to unrelated entities	\$ 291,411	\$ 1,938,334	\$ -	\$ 2,229,745
Accounts payable to related entities	46,196	1,731,457	(46,196)	1,731,457
Accrued expenses and other liabilities	1,111,185	238,227	-	1,349,412
Agency liability	3,160,491	-	-	3,160,491
Investment in unconsolidated entities	-	327,652	-	327,652
Contingent notes payable	68,315	-	-	68,315
Notes payable, net	<u>1,367,734</u>	<u>26,282,791</u>	<u>(3,738,603)</u>	<u>23,911,922</u>
Total liabilities	<u>6,045,332</u>	<u>30,518,461</u>	<u>(3,784,799)</u>	<u>32,778,994</u>
 Net assets				
Without donor restrictions				
Controlling	16,037,661	6,683,962	345,612	23,067,235
Noncontrolling	<u>-</u>	<u>31,823,169</u>	<u>-</u>	<u>31,823,169</u>
Total without donor restrictions	16,037,661	38,507,131	345,612	54,890,404
With donor restrictions	<u>585,547</u>	<u>-</u>	<u>-</u>	<u>585,547</u>
Total net assets	<u>16,623,208</u>	<u>38,507,131</u>	<u>345,612</u>	<u>55,475,951</u>
 Total liabilities and net assets	 <u>\$ 22,668,540</u>	 <u>\$ 69,025,592</u>	 <u>\$ (3,439,187)</u>	 <u>\$ 88,254,945</u>

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Activities
For The Year Ended December 31, 2021

	<u>CitySquare</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
Revenues and other support				
Contributions and grants				
Individuals	\$ 1,774,220	\$ -	\$ -	\$ 1,774,220
Religious organizations	321,276	-	-	321,276
Corporations	1,022,932	-	-	1,022,932
Foundations	2,827,304	-	-	2,827,304
Federal, state, and city	11,999,373	-	-	11,999,373
United Way	472,012	-	-	472,012
In-kind contributions	<u>6,548,648</u>	<u>-</u>	<u>-</u>	<u>6,548,648</u>
Total contributions and grants	24,965,765	-	-	24,965,765
Program revenue	668,924	-	-	668,924
Sales of merchandise	7,922	-	-	7,922
Proceeds from fundraising events	595,240	-	-	595,240
Less: direct benefit to donors	(97,361)	-	-	(97,361)
Interest income	12,167	-	-	12,167
Rental income, net of vacancies	169,028	6,072,672	(63,733)	6,177,967
Tenant expense reimbursements	-	54,630	-	54,630
Other revenue	<u>87,551</u>	<u>-</u>	<u>-</u>	<u>87,551</u>
Total revenues and other support	<u>26,409,236</u>	<u>6,127,302</u>	<u>(63,733)</u>	<u>32,472,805</u>
Functional expenses				
Programs	22,590,379	8,129,775	(63,733)	30,656,421
Management and general	3,287,030	1,032,252	-	4,319,282
Fundraising	<u>948,684</u>	<u>-</u>	<u>-</u>	<u>948,684</u>
Total functional expenses	<u>26,826,093</u>	<u>9,162,027</u>	<u>(63,733)</u>	<u>35,924,387</u>
Change in net assets from operations	<u>(416,857)</u>	<u>(3,034,725)</u>	<u>-</u>	<u>(3,451,582)</u>
Other gains/(losses)				
Gain on forgiveness of Paycheck Protection Program loan	1,283,300	108,058	-	1,391,358
Loss on uncollectible receivables from related entities	-	(137,319)	-	(137,319)
Loss on equity in earnings of unconsolidated entities	-	(327,652)	-	(327,652)
Loss on impairment of real estate	-	(1,186,973)	-	(1,186,973)
Loss on impairment of investments in unconsolidated entities	<u>-</u>	<u>(530,019)</u>	<u>-</u>	<u>(530,019)</u>
Total other gains/(losses)	<u>1,283,300</u>	<u>(2,073,905)</u>	<u>-</u>	<u>(790,605)</u>
Change in net assets	866,443	(5,108,630)	-	(4,242,187)
Noncontrolling interest	<u>-</u>	<u>(1,606,593)</u>	<u>-</u>	<u>(1,606,593)</u>
Change in net assets attributable to the controlling interest	866,443	(3,502,037)	-	(2,635,594)
Net assets, beginning of year	15,756,765	43,658,204	345,612	59,760,581
Distributions	-	(42,443)	-	(42,443)
Noncontrolling interest	<u>-</u>	<u>(1,606,593)</u>	<u>-</u>	<u>(1,606,593)</u>
Net assets, end of year	<u>\$ 16,623,208</u>	<u>\$ 38,507,131</u>	<u>\$ 345,612</u>	<u>\$ 55,475,951</u>

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Financial Position
December 31, 2021

ASSETS

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Residential, LLC	CityWalk at Akard Master Condominium Association, Inc.	St. Anne's Hospital, LLC	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing GP, LLC	Eliminating Entries	Consolidated CitySquare Housing
Cash and cash equivalents	\$ 572,607	\$ 54,557	\$ 169,595	\$ 65,826	\$ -	\$ 151,862	\$ 85,081	\$ 327,327	\$ -	\$ 1,426,855
Restricted deposits and reserves	-	-	974,347	-	-	-	1,165,956	1,226,095	-	3,366,398
Rents receivable, net	7,870	7,368	29,595	-	-	-	574,721	7,664	-	627,218
Receivables from related entities	2,959,907	3,015	-	66,126	-	150	-	-	(2,978,557)	50,641
Notes receivable	1,002,942	-	-	-	-	1,040,150	-	-	(2,043,092)	-
Investments in related entities	694,718	-	-	-	-	-	-	-	(694,718)	-
Insurance claims receivable	-	-	72,652	-	-	-	22,697	171,858	-	267,207
Prepaid and other assets	3,175	52,958	129,345	-	-	-	43,698	59,818	-	288,994
Tax credit fees, net	-	-	16,781	-	-	-	174,958	219,999	-	411,738
Investments held for sale	565,892	-	-	-	-	10,000	-	-	-	575,892
Real estate held for sale	340,407	-	-	-	10	-	-	-	-	340,417
Property and equipment, net	7,950,783	5,838,031	18,679,815	-	-	-	19,221,074	11,838,011	(1,857,482)	61,670,232
Total assets	\$ 14,098,301	\$ 5,955,929	\$ 20,072,130	\$ 131,952	\$ 10	\$ 1,202,162	\$ 21,288,185	\$ 13,850,772	\$ (7,573,849)	\$ 69,025,592

LIABILITIES AND NET ASSETS

Liabilities										
Accounts payable to unrelated entities	\$ 222,076	\$ 91,487	\$ 348,321	\$ 131,952	\$ 304,666	\$ -	\$ 476,648	\$ 363,184	\$ -	\$ 1,938,334
Accounts payable to related entities	47,560	1,393,100	2,668,742	-	-	-	518,607	121,562	(3,018,114)	1,731,457
Accrued expenses and other liabilities	2,083	-	46,815	-	-	-	129,809	59,520	-	238,227
Investment in unconsolidated entities	1,641,899	-	-	-	-	-	-	327,652	(1,641,899)	327,652
Notes payable, net	5,817,929	5,193,505	10,968,141	-	-	-	5,242,245	2,037,034	(2,976,063)	26,282,791
Total liabilities	7,731,547	6,678,092	14,032,019	131,952	304,666	-	6,367,309	2,908,952	(7,636,076)	30,518,461
Net assets										
Controlling	6,366,754	(722,163)	694,718	-	(304,656)	1,202,162	-	(615,080)	62,227	6,683,962
Noncontrolling	-	-	5,345,393	-	-	-	14,920,876	11,556,900	-	31,823,169
Total net assets	6,366,754	(722,163)	6,040,111	-	(304,656)	1,202,162	14,920,876	10,941,820	62,227	38,507,131
Total liabilities and net assets	\$ 14,098,301	\$ 5,955,929	\$ 20,072,130	\$ 131,952	\$ 10	\$ 1,202,162	\$ 21,288,185	\$ 13,850,772	\$ (7,573,849)	\$ 69,025,592

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Activities
For The Year Ended December 31, 2021

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Residential, LLC	CityWalk at Akard Master Condominium Association, Inc.	St. Anne's Hospital, LLC	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing GP, LLC	Eliminating Entries	CitySquare Housing
Rental income, net of vacancies	\$ 441,114	\$ 380,870	\$ 2,183,957	\$ 1,091,298	\$ -	\$ -	\$ 1,721,753	\$ 1,307,319	\$ (1,053,639)	\$ 6,072,672
Tenant expense reimbursements	-	55,830	-	-	-	-	-	-	(1,200)	54,630
Partnership and asset management fees	87,939	-	-	-	-	-	-	-	(87,939)	-
Total	<u>529,053</u>	<u>436,700</u>	<u>2,183,957</u>	<u>1,091,298</u>	<u>-</u>	<u>-</u>	<u>1,721,753</u>	<u>1,307,319</u>	<u>(1,142,778)</u>	<u>6,127,302</u>
Functional expenses										
Programs	1,426,060	-	2,781,362	1,091,298	-	5,667	2,362,093	1,676,227	(1,212,932)	8,129,775
Management and general	373,531	658,721	-	-	-	-	-	-	-	1,032,252
Total functional expenses	<u>1,799,591</u>	<u>658,721</u>	<u>2,781,362</u>	<u>1,091,298</u>	<u>-</u>	<u>5,667</u>	<u>2,362,093</u>	<u>1,676,227</u>	<u>1,212,932</u>	<u>9,162,027</u>
Change in net assets from operations	<u>(1,270,538)</u>	<u>(222,021)</u>	<u>(597,405)</u>	<u>-</u>	<u>-</u>	<u>(5,667)</u>	<u>(640,340)</u>	<u>(368,908)</u>	<u>70,154</u>	<u>(3,034,725)</u>
Other gains/(losses)										
Equity in earnings of consolidating partnerships	(854,368)	-	-	-	-	-	-	-	854,368	-
Gain on forgiveness of Paycheck Protection Program loan	108,058	-	-	-	-	-	-	-	-	108,058
Loss on uncollectible receivables from related entities	-	-	-	-	-	(137,319)	-	-	-	(137,319)
Loss on equity in earnings of unconsolidated entities	-	-	-	-	-	-	-	(327,652)	-	(327,652)
Loss on impairment of real estate	(472,317)	-	-	-	(714,656)	-	-	-	-	(1,186,973)
Loss on impairment of investments in unconsolidated entities	(40,019)	-	-	-	-	(490,000)	-	-	-	(530,019)
Other	42,599	-	-	-	-	-	-	-	(42,599)	-
Total other gains/(losses)	<u>(1,216,047)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(714,656)</u>	<u>(627,319)</u>	<u>-</u>	<u>(327,652)</u>	<u>811,769</u>	<u>(2,073,905)</u>
Change in net assets	<u>(2,486,585)</u>	<u>(222,021)</u>	<u>(597,405)</u>	<u>-</u>	<u>(714,656)</u>	<u>(632,986)</u>	<u>(640,340)</u>	<u>(696,560)</u>	<u>881,923</u>	<u>(5,108,630)</u>
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>(597,345)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(640,340)</u>	<u>(368,908)</u>	<u>-</u>	<u>(1,606,593)</u>
Change in net assets attributable to controlling interest	<u>(2,486,585)</u>	<u>(222,021)</u>	<u>(60)</u>	<u>-</u>	<u>(714,656)</u>	<u>(632,986)</u>	<u>-</u>	<u>(327,652)</u>	<u>881,923</u>	<u>(3,502,037)</u>
Net assets, beginning of year	8,853,339	(500,142)	6,663,807	-	410,000	1,835,148	15,561,216	11,680,997	(846,161)	43,658,204
Distributions	-	-	(26,291)	-	-	-	-	(42,617)	26,465	(42,443)
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>(597,345)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(640,340)</u>	<u>(368,908)</u>	<u>-</u>	<u>(1,606,593)</u>
Net assets, end of year	<u>\$ 6,366,754</u>	<u>\$ (722,163)</u>	<u>\$ 6,040,111</u>	<u>\$ -</u>	<u>\$ (304,656)</u>	<u>\$ 1,202,162</u>	<u>\$ 14,920,876</u>	<u>\$ 10,941,820</u>	<u>\$ 62,227</u>	<u>\$ 38,507,131</u>



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*

To the Board of Directors of
CitySquare and Subsidiaries
Dallas, Texas

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 consolidated financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of CitySquare and Subsidiaries (the "Organization"), as of and for the year ended December 31, 2021, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic consolidated financial statements, and have issued our report thereon dated September 19, 2022.

Our report includes a reference to other auditors who audited the financial statements of CityWalk at Akard Master Condominium Association, Inc., Akard Walk Commercial, LLC, Akard Walk Residential, LLC, St. Anne's Hospital, LLC, TEOF, Wynnewood Family Housing, LP, Wynnewood Seniors Housing GP, LLC, and CitySquare Housing, (herein collectively referred to as "CitySquare Housing and Subsidiaries") as described in our report on CitySquare and Subsidiaries' consolidated financial statements. The financial statements of CitySquare Housing and Subsidiaries were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with CitySquare Housing and Subsidiaries.

Report on Internal Control over Financial Reporting

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



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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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 consolidated financial statements. 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
Dallas, Texas

September 19, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

To the Board of Directors of
CitySquare and Subsidiaries
Dallas, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited CitySquare and Subsidiaries (the "Organization")'s , except for CityWalk at Akard Master Condominium Association, Inc., Akard Walk Commercial, LLC, Akard Walk Residential, LLC, St. Anne's Hospital, LLC, TEOF, Wynnewood Family Housing, LP, Wynnewood Seniors Housing GP, LLC, and CitySquare Housing (herein collectively referred to as "CitySquare Housing and Subsidiaries"), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization, except for CitySquare Housing and Subsidiaries, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's, except for CitySquare Housing and Subsidiaries, compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's, except for CitySquare Housing and Subsidiaries, compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's, except for CitySquare Housing and Subsidiaries, compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's, except for CitySquare Housing and Subsidiaries, internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's, except for CitySquare Housing and Subsidiaries, internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino^{LLP}
Dallas, Texas

September 19, 2022

CitySquare and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Treasury			
Passed-Through United Way of Metropolitan Dallas:			
Emergency Rental Assistance Program - COVID-19	21.023	OCC-2021-000- 15590	\$ 1,080,225
Total Passed-Through United Way of Metropolitan Dallas			<u>1,080,225</u>
Total U.S. Department of Treasury			<u>1,080,225</u>
U.S. Department of Agriculture			
Passed-Through Texas Department of Agriculture:			
Child Nutrition Cluster			
Summer Food Service Program for Children	10.559	01636	538,111
Total Child Nutrition Cluster			<u>538,111</u>
Child and Adult Care Food Program	10.558	01636	1,082,429
Total Passed-Through Texas Department of Agriculture			<u>1,620,540</u>
Total U.S. Department of Agriculture			<u>1,620,540</u>
U.S. Department of Housing and Urban Development			
Direct awards			
Continuum of Care - Destination Home	14.267	N/A	1,780,036
Continuum of Care - Destination Home	14.267	N/A	1,719,346
Continuum of Care - TRAC RRH Dallas	14.267	N/A	106,441
Continuum of Care - TRAC RRH Dallas	14.267	N/A	82,256
Continuum of Care - TRAC RRH Tarrant	14.267	N/A	75,953
Continuum of Care - TRAC RRH Tarrant	14.267	N/A	24,081
Continuum of Care - Shelter Plus Care Program	14.267	N/A	132,146
Continuum of Care - Shelter Plus Care Program	14.267	N/A	95,015
			<u>4,015,274</u>
Passed-Through United Way of Metropolitan Dallas:			
Community Development Block Grant / Entitlement Grants	14.218	HOU-2020- 00013759	239,217
Total Passed-Through United Way of Metropolitan Dallas			<u>239,217</u>
Passed-Through Department of Housing and Community Affairs			
Emergency Solutions Grant Program	14.231	42206000010	9,536
Emergency Solutions Grant Program	14.231	42216000009	1,872
Emergency Solutions Grant CARES Street Outreach	14.231	43206000009	143,367
Total Passed-Through Department of Housing and Community Affairs			<u>154,775</u>
Total U.S. Department of Housing and Urban Development			<u>4,409,266</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

CitySquare and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Justice			
Passed-through Dallas County			
Victims of Crime Act Legal Actions Work	16.575	3847602	159,248
Victims of Crime Act Legal Actions Work	16.575	3847603	44,253
Victims of Crime Act Transitional Housing	16.575	3782201	<u>301,302</u>
Total Passed-through Dallas County			<u>504,803</u>
Total U.S. Department of Justice			<u>504,803</u>
U.S. Department of Health and Human Services			
Passed-Through Texas Department of Family and Protective Services:			
Preparation for Adult Living	93.674	24259551	146,549
Preparation for Adult Living	93.674	24259551	60,344
Preparation for Adult Living and Aftercare Services	93.674	24259511	483,838
Preparation for Adult Living and Aftercare services	93.674	24259511	<u>181,195</u>
Total Passed-Through Texas Department of Family and Protective Services			<u>871,926</u>
Passed-Through Texas Workforce Commission:			
Temporary Assistance for Needy Families	93.558	0621TAN001	110,420
Temporary Assistance for Needy Families	93.558	0621TAN001	243
Temporary Assistance for Needy Families	93.558	0622TAN001	23,390
Temporary Assistance for Needy Families	93.558	0521TAN001	107,784
Temporary Assistance for Needy Families	93.558	0521TAN001	662
Temporary Assistance for Needy Families	93.558	0522TAN001	<u>33,019</u>
Total Passed-Through Texas Workforce Commission			<u>275,518</u>
Passed-Through United Way of Metropolitan Dallas:			
Healthcare navigator program	93.332	NAVCA210434-01-00	<u>92,297</u>
Total Passed-Through National Institute of Environmental Health Sciences			<u>92,297</u>
Total U.S. Department of Health and Human Services			<u>1,239,741</u>
Corporation for National and Community Services			
Passed-Through OneStar National Service Commission			
AmeriCorps State Program	94.006	16AFHTX0010017	778,573
AmeriCorps State Program	94.006	16AFHTX0010017	7,945
AmeriCorps State Program	94.006	16AFHTX0010017	<u>326,052</u>
Total Passed-Through OneStar National Service Commission			<u>1,112,570</u>
Total Corporation for National and Community Services			<u>1,112,570</u>

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are an integral part of this schedule.

CitySquare and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024	782600-062	8,841
Emergency Food and Shelter National Board Program	97.024	782600-062	65,000
Emergency Food and Shelter National Board Program - CARES	97.024	782600-062	<u>50,000</u>
 Total U.S. Department of Homeland Security			 <u>123,841</u>
 Total Expenditures of Federal Awards			 <u>\$ 10,090,986</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

CitySquare and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
December 31, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of CitySquare and Subsidiaries (the "Organization"), excluding CitySquare Housing and Subsidiaries, under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Organization.

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 the Uniform Guidance, wherein certain types of expenditures are allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable. The Organization has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CitySquare and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	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 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
AmeriCorps	94.006
Emergency Rental Assistance Program II	21.023
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

CitySquare and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

CitySquare and Subsidiaries
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2021

There were no prior year findings.