

Consolidated Financial Statements and Supplementary Information

CitySquare and Subsidiaries

For the year ended December 31, 2022



LANE GORMAN TRUBITT, LLC
Accountants & Advisors

2626 Howell Street, Ste 700
Dallas, Texas 75204

P: 214-871-7500
E: askus@lgt-cpa.com

www.lgt-cpa.com

CITY SQUARE AND SUBSIDIARIES

DECEMBER 31, 2022

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LANE GORMAN TRUBITT, LLC
Accountants & Advisors

Independent Auditor's Report

Board of Directors
CitySquare and Subsidiaries

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, 2022, and the related consolidated statements of activities and changes in net assets, 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 the Organization as of December 31, 2022, and the changes in its net assets and its 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, 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 77% of consolidated assets at December 31, 2022 and total revenues constituting 17% 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 for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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 of America. 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 the Organization 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 the Organization'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 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 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 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 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 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 the Organization'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Organization'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 financial statements as a whole. The supplementary information on pages 26 – 30 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and *Texas Grant Management Standards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 29, 2023, 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, grant agreements, and other matters. The purpose of that report is solely 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.

Lane Cormen Truhitt, LLC

Dallas, Texas
September 29, 2023

CitySquare and Subsidiaries
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2022

ASSETS

Cash and cash equivalents	\$	1,868,105
Cash held for agency		3,144,266
Restricted deposits and reserves		3,567,069
Pledges receivable		400,000
Federal and state grants receivable		1,239,969
Rents receivable, net		610,953
Other receivable		76,692
Insurance claims receivable		143,066
Prepaid and other assets		704,710
Tax credit fees, net		356,043
Real estate held for sale		340,408
Right of use assets - operating, net		740,650
Property and equipment, net		<u>72,186,748</u>
Total assets	\$	<u><u>85,378,679</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable to unrelated entities	\$	1,877,269
Accounts payable to related entities		1,705,956
Accrued expenses and other liabilities		904,768
Agency liability		3,144,266
Investment in unconsolidated entities		342,994
Deferred revenue		463,155
Line of credit		750,000
Lease liabilities - operating		741,264
Contingent note payable		34,157
Notes payable, net		<u>22,404,795</u>
Total liabilities		<u><u>32,368,624</u></u>

COMMITMENTS AND CONTINGENCIES

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NET ASSETS

Without donor restrictions		
Controlling		22,139,012
Noncontrolling		<u>30,366,481</u>
Total without donor restrictions		52,505,493
With donor restrictions		<u>504,562</u>
Total net assets		<u><u>53,010,055</u></u>
Total liabilities and net assets	\$	<u><u>85,378,679</u></u>

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

CitySquare and Subsidiaries
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions and grants			
Individuals	\$ 2,669,148	\$ 26,050	\$ 2,695,198
Religious organizations	189,447	51,000	240,447
Corporations	1,049,736	171,696	1,221,432
Foundations	1,893,057	562,850	2,455,907
Federal, state and city	12,962,218	2,127,244	15,089,462
United Way	367,700	77,012	444,712
In-kind contributions	5,634,853	-	5,634,853
Total contributions and grants	24,766,159	3,015,852	27,782,011
Program revenue			
Proceeds from fundraising events	602,870	-	602,870
Less: direct benefits to donors	(151,334)	-	(151,334)
Interest income	10,749	-	10,749
Rental income, net of vacancies	7,063,102	-	7,063,102
Tenant expense reimbursements	56,916	-	56,916
Other revenue	65,687	-	65,687
Total revenues and other support, before releases	32,414,149	3,015,852	35,430,001
Net assets released from restriction	3,096,837	(3,096,837)	-
Total revenues and other support	\$ 35,510,986	\$ (80,985)	\$ 35,430,001

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

CitySquare and Subsidiaries
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
FUNCTIONAL EXPENSES			
Program services			
Hope	\$ 8,477,716	\$ -	\$ 8,477,716
Housing	14,628,094	-	14,628,094
Hunger	7,995,963	-	7,995,963
Health	1,053,105	-	1,053,105
Total program services	32,154,878	-	32,154,878
Support services			
Management and general	5,442,652	-	5,442,652
Fundraising	1,216,675	-	1,216,675
Total support services	6,659,327	-	6,659,327
Total functional expenses	38,814,205	-	38,814,205
 Change in net assets from operations	 (3,303,219)	 (80,985)	 (3,384,204)
 Other gains (losses)			
Gain on forgiveness of debt	950,383	-	950,383
Equity in loss of investments in unconsolidated entities	(15,342)	-	(15,342)
Total other gains (losses)	935,041	-	935,041
 Change in net assets	 (2,368,178)	 (80,985)	 (2,449,163)
 Noncontrolling interest	 (1,439,955)	 -	 (1,439,955)
 Change in net assets attributable to the controlling interest	 (928,223)	 (80,985)	 (1,009,208)
 Net assets, beginning of year	 54,890,404	 585,547	 55,475,951
Distributions	(16,733)	-	(16,733)
Noncontrolling interest	(1,439,955)	-	(1,439,955)
 Net assets, end of year	 \$ 52,505,493	 \$ 504,562	 \$ 53,010,055

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

CitySquare and Subsidiaries
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	Hope	Housing	Hunger	Health	Total Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Operational expenses									
Personnel expenses	\$ 5,019,008	\$ 2,755,308	\$ 965,020	\$ 846,360	\$ 9,585,696	\$ 2,428,292	\$ 703,029	\$ -	\$ 12,717,017
Direct assistance to clients	2,543,717	3,315,955	1,410,840	251	7,270,763	24,076	380	-	7,295,219
Other in-kind expenses	119,336	61,348	5,194,967		5,375,651	29,302	229,900	-	5,634,853
Dues and subscriptions	68,507	44,534	11,855	14,060	138,956	29,514	11,191	-	179,661
Information technology	52,292	29,565	41,808	8,328	131,993	58,043	6,093	-	196,129
Interest expense	14,217	-	15	-	14,232	18,878	-	-	33,110
Legal and professional fees	35,170	42,734	1,333	10,839	90,076	362,009	102,656	-	554,741
Special events	-	-	-	-	-	-	-	151,334	151,334
Office and other expenses	138,558	80,581	19,835	58,461	297,435	60,538	144,362	-	502,335
Occupancy expenses	272,181	292,856	52,320	65,081	682,438	648,998	12,559	-	1,343,995
Supplies and materials	22,853	43,512	39,825	16,844	123,034	43,133	283	-	166,450
Telephone	54,615	53,892	9,407	17,858	135,772	15,729	5,309	-	156,810
Travel	47,706	90,436	26,351	7,580	172,073	10,676	913	-	183,662
Depreciation and amortization	89,556	28,865	222,387	7,443	348,251	259,169	-	-	607,420
CitySquare Housing	-	7,788,508	-	-	7,788,508	1,454,295	-	-	9,242,803
Total expenses	8,477,716	14,628,094	7,995,963	1,053,105	32,154,878	5,442,652	1,216,675	151,334	38,965,539
Less expense included with revenues on the consolidated statement of activities and changes in net assets									
Special events	-	-	-	-	-	-	-	(151,334)	(151,334)
Total expenses included in the expense section on the consolidated statement of activities and changes in net assets	\$ 8,477,716	\$ 14,628,094	\$ 7,995,963	\$ 1,053,105	\$ 32,154,878	\$ 5,442,652	\$ 1,216,675	\$ -	\$ 38,814,205

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

CitySquare and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (2,449,163)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	2,611,695
Amortization of tax credit fees	219,849
Amortization of debt issuance costs included in interest expense	42,721
Noncash lease expense	369,328
Gain on forgiveness of debt	(950,383)
Equity in loss of investments in unconsolidated entities	15,342
Changes in operating assets and liabilities	
Pledges receivable	(400,000)
Federal and state grants receivable	(329,520)
Rent receivable, net	16,265
Other receivable	190,515
Receivables from related entities	50,641
Insurance claims receivable	618,819
Prepaid and other assets	(292,972)
Accounts payable to unrealed entities	(336,251)
Accounts payable to related entities	(25,501)
Accrued expenses and other liabilities	(444,644)
Agency liability	(16,225)
Deferred revenue	463,155
Lease liability - operating	(368,714)
Net cash used in operating activities	<u>(1,015,043)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(393,356)</u>
Net cash used in investing activities	(393,356)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on notes payable	(649,848)
Payments on line of credit	(114,034)
Proceeds on line of credit	864,034
Noncontrolling distributions of equity	<u>(16,733)</u>
Net cash provided by financing activities	<u>83,419</u>
Net decrease in cash, cash equivalents and restricted cash	(1,324,980)
Cash, cash equivalents and restricted cash, beginning of year	<u>9,904,420</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 8,579,440</u>
Cash, cash equivalents and restricted cash consist of the following:	
Cash and cash equivalents	\$ 1,868,105
Cash held for agency	3,144,266
Restricted deposits and reserves	<u>3,567,069</u>
	<u>\$ 8,579,440</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 1,069,096
Noncash investing, and financing activities:	
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 1,006,527

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

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NATURE OF OPERATIONS

CitySquare 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 initiative aims 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, and federal, state and local government subsidies in various forms, including low-income housing tax credits, low-interest rate loans, grants, and rent subsidies for qualifying very low, low, and moderate-income tenants.

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 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, 2022.
- *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. CitySquare was the sole member of Housing, with control over its Board of Directors until the Board of Directors of both entities agreed on February 27, 2023 to disaffiliate effective December 31, 2022. Housing changed its name to Central Dallas Community Development Corporation on February 27, 2023. 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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

NATURE OF OPERATIONS (Continued)

Principles of Consolidation (Continued)

- *Akard Walk Residential, LLC (“Residential”)* - Formed to develop, construct, own, maintain, and operate floors four through fourteen for residential tenants in the CityWalk building.
- *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.
- *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”.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by the Organization in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Accounting

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”).

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions—net assets not subject to donor-imposed stipulations. This category of net assets may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions—net assets subject to donor-imposed stipulations. Some donor imposed stipulations are temporary in nature, such as those that may or will be met by actions of the Organization and/or the passage of time. Other donor-imposed stipulations are permanent in nature, where the donor stipulates that resources be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specified purposes. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with major financial institutions located in Dallas, Texas, which at times may exceed federally insured limits. The Organization has not incurred any losses in these accounts and does not believe that they are exposed to any significant credit risk on cash and cash equivalents.

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 consolidated financial statements.

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.

Pledges Receivable

Unconditional promises of contributions to the Organization that are expected to be collected within one year are recorded at net realizable value. Unconditional promises of contributions to the Organization that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. In accordance with GAAP, conditional promises to give are not included as support until the conditions are substantially met.

An allowance for uncollectible pledges receivable is estimated by management based on its analysis, including such factors as prior collection history, type of contribution and nature of the fund-raising activity. The Organization writes off receivables when they are deemed uncollectible. An allowance for uncollectible pledges receivable was not considered necessary at December 31, 2022, as management considers the remaining pledges receivable fully collectible.

Federal and State Grants Receivable

Grants receivable consist of amounts due from government agencies and represent amounts due to the Organization in accordance with cost-reimbursement contracts. An allowance for uncollectible grants receivable was not considered necessary at December 31, 2022, as management considers the remaining government grants receivable fully collectible.

Rents Receivable

Rents receivable from tenants that are expected to be satisfied within one year are reported net of an allowance for doubtful accounts of \$6,056 at December 31, 2022. Management’s estimate of the 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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insurance Claims Receivable

During 2022, the Housing properties incurred damages related to insurable losses and recognized insurance claims receivable of \$143,066 at December 31, 2022 in the accompanying consolidated statement of financial position, and were received in February 2023.

Prepaid and Other Assets

Prepaid and other assets primarily consist of payments for insurance, rent and deposits. Prepaid and other assets are periodically evaluated by management to determine whether they will ultimately be used in operations.

Tax Credit Fees

Tax credit fees are amortized using the straight-line method over the fifteen-year tax credit compliance period. At December 31, 2022, cumulative tax credit fees were \$832,264 and accumulated amortization was \$476,221. Amortization expense was \$55,696 for the year ended December 31, 2022.

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 3 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

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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022.

Investment in Other Entities

Investment in unconsolidated entities accounts for the activity of the Organization recorded under the equity method. See Note 4 for further detail. Investments in consolidated entities have been eliminated in the consolidated financial statements.

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 within other gains (losses) section of the accompanying consolidated statement of activities and changes in net assets.

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 other gains (losses) section of 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.

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, 2022 in connection to this contingent note payable.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022, debt issuance costs net of accumulated amortization were \$354,133. Amortization expense for the debt issuance costs was \$42,721 during the year ended December 31, 2022.

Contributions and Grants

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.

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, 2022 and expected to be received from funding sources in the subsequent year..

Conditional promises to give are not included in contributions or contributions receivable until such time as the conditions are substantially met. The Organization has an outstanding contingent note payable for \$34,157. 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 \$7,741,000 that have not been recognized at December 31, 2022 because qualifying expenditures have not yet been incurred.

Revenue Recognition

Revenue is recognized as the Organization satisfies performance obligations under its contract, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods provided and the terms and conditions of the contract. Revenues are recorded net of any sales taxes charged.

Performance obligations are determined based on the nature of the goods or services provided by the Organization in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Organization believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided to customers at a single point in time and the Organization does not believe it is required to provide additional goods and services provided. The Organization's revenue streams do not have significant financing components or contract costs.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Organization's revenue streams that are accounted for as exchange transactions include rental income, tenant expense reimbursements, and sponsorships. Because the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606-10-50-14(a), *Revenue from Contract with Customers*, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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.

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 \$1.92 per pound in 2022, 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).

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 asset and construction 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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022. 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.

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 Internal Revenue Service ("IRS") for a period of three years.

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

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.

Adoption of New Accounting Pronouncement

On January 1, 2022, the Organization adopted the provisions of FASB ASC Topic 842, *Leases*. Under the new guidance, the Organization recognized right-of-use ("ROU") assets and lease liabilities for leases with terms greater than 12 months. Lessees are now required to classify leases as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement (Continued)

The Organization has elected to utilize the following practical expedients:

- The Organization did not reassess whether any expired or existing contracts are or contain leases upon adoption;
- The Organization retained the classification of leases (e.g., operating or finance lease) existing as of the date of adoption;
- The Organization did not reassess initial direct costs for any existing leases upon adoption;
- The Organization utilized hindsight in determining the lease term; that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset and in assessing impairment of the Organization's ROU assets;
- The Organization has chosen to account for each separate lease component of a contract and its associated nonlease components as a single lease component;
- The Organization has elected to exclude leases with terms less than 12 months, including any probable renewal options, from statement of financial position recognition.
- For leases that the implicit borrowing rate is not known, the Organization has elected to utilize the risk-free rate for the asset class, such as facility leases.

The Organization adopted FASB ASC Topic 842, *Leases* using the modified retrospective method, and accordingly, the new guidance was applied retrospectively to leases that existed as of January 1, 2022 (the date of initial application), without restating any prior year amounts or disclosures. As a result of adoption, the Organization recognized the following impact to the January 1, 2022, consolidated statement of financial position:

ROU assets - operating	\$ 252,167
Lease liabilities – operating, current	(247,854)
Lease liabilities – operating, net of current portion	<u>(4,313)</u>
Net assets	<u>\$ -</u>

The adoption of FASB ASC Topic 842, *Leases*, did not have an impact on the Organization's results of operations or net assets.

Leases

The Organization recognizes ROU assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

The Organization's ROU assets and lease liabilities primarily relate to facility leases from a third party from which business operations are conducted. None of the Organization's lease agreements contain material residual value guarantees or material restrictions or covenants.

Long-term leases (leases with terms greater than 12 months) are recorded as liabilities at the present value of the minimum lease payments not yet paid. The Organization uses its incremental borrowing rate to determine the present value of the lease when the rate implicit in the lease is not readily determinable.

Components of lease costs consist of the following for the year ended December 31, 2022 :

Operating lease cost	\$ 283,178
Variable lease cost	<u>86,150</u>
Total lease cost	<u>\$ 369,328</u>

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Organization's ROU assets and lease liabilities consisted of the following at December 31, 2022:

Operating Leases

ROU assets – operating	\$ 1,006,527
Accumulated amortization	(265,877)
Net ROU assets – operating	<u>\$ 740,650</u>
Lease liabilities – operating, current	\$ 225,808
Lease liabilities – operating, net of current portion	<u>515,456</u>
Total lease liabilities – operating	<u>\$ 741,264</u>

The remaining lease payments under the Organization's operating and finance leases consist of the following for the years ending December 31:

	<u>Operating Leases</u>
2023	\$ 288,767
2024	291,789
2025	273,666
Thereafter	<u>-</u>
Total future undiscounted lease payments	854,222
Less: interest	<u>(112,958)</u>
Present value of lease liabilities	<u>\$ 741,264</u>

Total rent expense was approximately \$309,753 for the year ended December 31, 2022 and is included in occupancy expenses in the accompanying statement of functional expenses.

Supplemental information related to the Organization's leases for the year ended December 31, 2022 is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 368,714
Weighted-average remaining lease term – operating leases	34 months
Weighted-average discount rate – operating leases	10.25%

2. 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, 2022 to fund general expenditures:

Financial assets:	
Cash and cash equivalents	\$ 1,868,105
Cash held for agency	3,144,266
Restricted deposits and reserves	3,567,069
Pledges receivable	400,000
Federal and state grants receivable	1,239,969
Rents receivable, net	610,953
Other receivable	76,692
Insurance claims receivable	<u>143,066</u>
	<u>\$ 11,050,120</u>

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

2. LIQUIDITY AND FUNDS AVAILABLE (Continued)

Less amounts unavailable for general expenditure within one year:	
Cash held within an agency fund	\$ (3,144,266)
Restricted deposits and reserves	(3,567,069)
Donor imposed restrictions	<u>(504,562)</u>
	<u>(7,215,897)</u>
Financial assets available for general expenditure within one year	<u>\$ 3,834,223</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 of approximately \$571,000 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.

In addition to financial assets available to meet general expenditures over the next twelve months, the Organization anticipates collecting sufficient revenue and support to cover general expenditures not covered by donor-restricted resources.

3. RESTRICTED DEPOSITS AND RESERVES

Restricted deposits and reserves are consisted of the following:

Reserves for operating deficits and replacements	\$ 2,688,484
Security deposits	114,792
Insurance and real estate tax escrows	<u>763,793</u>
	<u>\$ 3,567,069</u>

4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

Housing owns a 1% interest 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 of \$15,342 for its interest in WCH for the year ended December 31, 2022. As the interest in WCH’s losses has reduced the equity investment below zero, the Organization has reported the equity investment in WCH of \$342,994 as a liability within the accompanying statement of financial position at December 31, 2022.

5. PLEDGES RECEIVABLE

Pledges receivable are summarized as follows at December 31, 2022:

Promises to give due in less than one year	\$ 400,000
Promises to give due in 1 to 5 years	<u>-</u>
	400,000
Less allowance for uncollectible pledges	(-)
Less unamortized present value discount	<u>(-)</u>
	<u>\$ 400,000</u>

Promises to give due in more than one year are reflected at the net present value of estimated future cash flows and are discounted at an appropriate discount rate commensurate with the risks involved.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2022:

Land	\$ 6,360,272
Land improvements	4,101,622
Buildings	79,171,316
Tenant improvements	5,455,820
Furniture and equipment	3,782,443
Software	845,713
Vehicles	<u>468,216</u>
	100,185,402
Accumulated depreciation and amortization	<u>(27,998,654)</u>
	<u>\$ 72,186,748</u>

Depreciation and amortization expense for the year ended December 31, 2022 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 the following lines of credit as of December 31, 2022.

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% (5.89% at December 31, 2022). The line of credit had approximately \$25,000 available to borrow but there was no outstanding balance as of December 31, 2022. The line of credit is secured by the associated savings account.

The second 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 payable monthly and charged at a variable rate based on a rate index set by BOK Financial Corporation, currently at 8.25%. The line of credit is secured by substantially all assets of the Organization, including a deed of trust. Under the terms of the loan agreement, the Organization is subject to various covenants. The line of credit is payable in full on the Lender's demand or if no demand is made on the maturity date of January 11, 2024. The line of credit has an outstanding balances of \$750,000 at December 31, 2022.

8. NOTE PAYABLE

Notes payable are detailed as follows:

Permanent loans from governmental entities that bear no interest and mature from 2029 through 2032. These loans are secured by Residential's real estate and are payable from surplus cash as defined.	\$ 5,548,808
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.	5,245,028
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.	3,709,161

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

8. NOTE PAYABLE (Continued)

Loan secured by Commercial’s real estate from a bank requiring monthly payments of principal and interest at Wall Street prime plus .5% (7% at December 31, 2022) and maturing in 2040.	\$ 3,223,594
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.	2,050,257
Unsecured investment bond loans from bank that bears interest at 2% with interest due semi-annually. The loan matures in 2024.	2,000,000
Loan secured by Housing real estate from a bank requiring monthly payments of principal and interest at 4.25% and maturing in 2042.	812,080
Conventional loan by CitySquare to finance the purchase of a building secured by the deed of trust on the underlying building. The loan bears interest at 8.65% per annum. Quarterly payments of interest only, with all unpaid principal and interest due on maturity of November 30, 2023.	<u>170,000</u> 22,758,928
Less unamortized debt issuance costs	<u>(354,133)</u> <u>\$ 22,404,795</u>

The \$812,080 loan secured by Housing real estate was refinanced on May 31, 2023. The promissory note bears interest at 5%, matures on May 31, 2028 and provides for interest only payments until maturity.

The future maturities of notes payable are as follows:

Year ending December 31,

2023	\$ 491,300
2024	2,343,123
2025	368,171
2026	393,346
2027	422,105
Thereafter	<u>18,740,883</u> <u>\$ 22,758,928</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2022:

Net assets with donor restrictions consisted of the following:

Scholarships	\$ 57,147
Capital projects	61,351
Program grants	<u>386,064</u> <u>\$ 504,562</u>

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

9. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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	\$	23,884
Capital projects		38,649
Program grants		<u>3,034,304</u>
		<u>\$ 3,096,837</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.

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

Donated professional services	\$	5,100
Donated food		5,194,967
Donated facilities		171,984
Donated materials and supplies		233,500
Imputed interest		<u>29,302</u>
		<u>\$ 5,634,853</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 \$200,857 for the year ended December 31, 2022.

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:

- In connection with the disaffiliation of CitySquare and Housing as of December 31, 2022, CitySquare forgave notes payable due from Housing of \$1,920,432. Effective December 31, 2022, Housing repurchased partnership promissory notes of \$1,787,244 due to CitySquare for \$14,417. CitySquare and Housing agreed that certain liabilities of \$231,063 (subsequently increased to \$467,660) would be paid by Housing to CitySquare by December 31, 2026.
- CitySquare is a guarantor for the performance of the Residential operating agreement.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

12. RELATED PARTY TRANSACTIONS (Continued)

- Alliant, Ltd. and affiliates are administrative and investor members of Residential. On December 29, 2011, Alliant, Ltd. provided Residential with bridge loan financing of \$4,733,247 bearing interest at 10% until the loan converted to equity on December 22, 2015. The loan accrued interest of \$1,794,690 through December 22, 2015; at which time, the interest was originally due. In return for Alliant, Ltd. extending the interest due date, and forgiving the interest if certain conditions are met, Residential released reserves of \$155,725 to Alliant, Ltd. on February 16, 2018. In addition, Residential GP agreed to fund operating deficits not obtainable from the Operating Deficit Reserve up to \$2,754,762, and Housing and CitySquare guaranteed the performance of Residential GP to fund operating deficits. The accrued interest balance was \$1,638,965 at December 31, 2022.
- Alliant, Ltd. earned asset management fees from Residential of \$13,469 in 2022.
- CitySquare leased space from Commercial in 2022 and paid rent of \$56,510. The lease terminated in 2022.
- 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 City Walk at Akard Residential Loft Condominium Association (“LOFT”), a homeowner’s association for the condominiums. Two of the condominiums are owned by a former Housing President, consultant and Housing board member. Another condominium is owned by a principal in T&G Leasing (“T&G”), which provides legal services to Housing and served as secretary to the Housing Board.
- 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 \$48,750 at December 31, 2022.
- HAGP, Atmos LIHTC LLC (“ATML”) and TEOF Hotel are entities in which a former Housing board member and this individual’s family member have a direct controlling financial interest. HAGP and ATML are entities in which the former Housing director has a direct non-controlling financial interest. On August 24, 2022, Housing sold its 7.94% membership interests in HAGP and ATML, and a \$1,600,000 promissory note receivable and right of first refusal from Atmos (the “ATML Note”) to a trust created by the former board member for \$565,892 resulting in a loss of \$40,019 which was recorded as an impairment in 2021. As of December 31, 2021, no payments had been made on the ATML Note due to insufficient net cash flows in each year commencing on January 1, 2013.
- In late 2021, Housing and the former Housing President, who became TEOF’s Board Chairman in 2023, agreed to reorganize TEOF as a non-member organization. The reorganization included TEOF’s agreement to sell its 10% limited partnership interest in TEOF Hotel to the family member for \$10,000, resulting in a loss of \$627,319 and was recorded as an impairment in 2021. The reorganization also included TEOF’s agreement to forgive liabilities owed by Housing to TEOF of \$109,398 in 2022 and forgive notes payable owed by Housing to TEOF in return for Housing transferring a development under construction with a cost basis of \$340,408 and Holding’s removal as sole member of TEOF. The title to the development was transferred to TEOF on March 31, 2023 while TEOF is in the process of finalizing its bylaws to remove Holdings TEOF’s sole member. The working capital loans bear no interest, mature in 2038 and are eliminated in consolidation in 2022.

13. COMMITMENTS AND CONTINGENCIES

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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

13. COMMITMENTS AND CONTINGENCIES (Continued)

Guarantees (Continued)

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 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 1. 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.

Litigation

The Organization is 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.

Future Minimum Rents

Housing leases office space to tenants under net operating leases. All of the leases are noncancelable and expire on various dates through 2027. The future contractual minimum lease payments to be received (excluding operating expense reimbursements) by Housing under non-cancelable operating leases as of December 31, 2022 are as follows:

Year ending December 31,

2023	\$	129,081
2024		131,536
2025		119,198
2026		58,097
2027		41,002
Thereafter		-
		\$ 478,914

14. CONCENTRATIONS 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.

CitySquare and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022

14. CONCENTRATIONS OF CREDIT RISK (Continued)

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, 2022, the U.S. Department of Housing and Urban Development contributed approximately 16% of the total contributions and grants.

15. SUBSEQUENT EVENTS

Management identified subsequent events that provide evidence about conditions that existed at December 31, 2022 which were disclosed and recognized in the accompanying consolidated financial statements as discussed in Note 8 - Notes Payable and Note 12 - Related Party Transactions.

The Organization has evaluated subsequent events through September 29, 2023, the date which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CitySquare and Subsidiaries
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2022

	CitySquare	CitySquare Housing	Eliminations	Consolidated CitySquare
ASSETS				
Cash and cash equivalents	\$ 1,225,521	\$ 642,584	\$ -	\$ 1,868,105
Cash held for agency	3,144,266	-	-	3,144,266
Restricted deposits and reserves	-	3,567,069	-	3,567,069
Pledges receivable	400,000	-	-	400,000
Federal and state grants receivable	1,239,969	-	-	1,239,969
Rents receivable, net	-	610,953	-	610,953
Receivables from related entities	342,935	-	(342,935)	-
Other receivable	76,692	-	-	76,692
Insurance claims receivable	-	143,066	-	143,066
Prepaid and other assets	510,451	194,259	-	704,710
Tax credit fees, net	-	356,043	-	356,043
Real estate held for sale	-	340,408	-	340,408
Right of use assets - operating, net	740,650	-	-	740,650
Property and equipment, net	<u>12,073,155</u>	<u>59,767,981</u>	<u>345,612</u>	<u>72,186,748</u>
Total assets	<u>\$ 19,753,639</u>	<u>\$ 65,622,363</u>	<u>\$ 2,677</u>	<u>\$ 85,378,679</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable to unrelated entities	281,283	\$ 1,595,986	\$ -	\$ 1,877,269
Accounts payable to related entities	-	2,048,891	(342,935)	1,705,956
Accrued expenses and other liabilities	699,786	204,982	-	904,768
Agency liability	3,144,266	-	-	3,144,266
Investment in unconsolidated entities	-	342,994	-	342,994
Deferred revenue	463,155	-	-	463,155
Line of credit	750,000	-	-	750,000
Lease liabilities - operating	741,264	-	-	741,264
Contingent note payable	34,157	-	-	34,157
Notes payable, net	<u>170,000</u>	<u>22,234,795</u>	<u>-</u>	<u>22,404,795</u>
Total liabilities	6,283,911	26,427,648	(342,935)	32,368,624
COMMITMENTS AND CONTINGENCIES	-	-	-	-
NET ASSETS				
Without donor restrictions				-
Controlling	12,965,166	8,828,234	345,612	22,139,012
Noncontrolling	<u>-</u>	<u>30,366,481</u>	<u>-</u>	<u>30,366,481</u>
Total without donor restrictions	12,965,166	39,194,715	345,612	52,505,493
With donor restrictions	<u>504,562</u>	<u>-</u>	<u>-</u>	<u>504,562</u>
Total net assets	13,469,728	39,194,715	345,612	53,010,055
Total liabilities and net assets	<u>\$ 19,753,639</u>	<u>\$ 65,622,363</u>	<u>\$ 2,677</u>	<u>\$ 85,378,679</u>

See Independent Auditor's Report.

CitySquare and Subsidiaries
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2022

	<u>CitySquare</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
REVENUES AND OTHER SUPPORT				
Contributions and grants				
Individuals	2,671,048	\$ 24,150	\$ -	2,695,198
Religious organizations	240,447	-	-	240,447
Corporations	1,221,432	-	-	1,221,432
Foundations	2,455,907	-	-	2,455,907
Federal, state and city	15,089,462	-	-	15,089,462
United Way	444,712	-	-	444,712
In-kind contributions	<u>5,634,853</u>	<u>-</u>	<u>-</u>	<u>5,634,853</u>
Total contributions and grants	27,757,861	24,150	-	27,782,011
Program revenue				
Proceeds from fundraising events	602,870	-	-	602,870
Less: direct benefits to donors	(151,334)	-	-	(151,334)
Interest income	10,749	-	-	10,749
Rental income, net of vacancies	928,107	6,188,137	(53,142)	7,063,102
Tenant expense reimbursements	-	56,916	-	56,916
Other revenue	<u>80,043</u>	<u>-</u>	<u>(14,356)</u>	<u>65,687</u>
Total revenues and other support	29,228,296	6,269,203	(67,498)	35,430,001
FUNCTIONAL EXPENSES				
Program services	24,366,370	7,788,508	(53,142)	32,101,736
Support services				
Management and general	4,055,855	1,454,295	(14,356)	5,495,794
Fundraising	<u>1,216,675</u>	<u>-</u>	<u>-</u>	<u>1,216,675</u>
Total functional expenses	<u>29,638,900</u>	<u>9,242,803</u>	<u>(67,498)</u>	<u>38,814,205</u>
Change in net assets from operations	<u>(410,604)</u>	<u>(2,973,600)</u>	<u>-</u>	<u>(3,384,204)</u>
Other gains (losses)				
Gain on forgiveness of debt	950,383	-	-	950,383
Loss on forgiveness of notes receivable from related entity	(1,920,432)	-	1,920,432	-
Loss on sale of notes receivable	(1,772,827)	-	1,772,827	-
Gain on debt forgiveness from related entity	-	1,920,432	(1,920,432)	-
Gain on in-substance defeasement of notes payable	-	1,772,827	(1,772,827)	-
Equity in loss of investments in unconsolidated entities	<u>-</u>	<u>(15,342)</u>	<u>-</u>	<u>(15,342)</u>
Total other gains (losses)	<u>(2,742,876)</u>	<u>3,677,917</u>	<u>-</u>	<u>935,041</u>
Change in net assets	(3,153,480)	704,317	-	(2,449,163)
Noncontrolling interest	<u>-</u>	<u>(1,439,955)</u>	<u>-</u>	<u>(1,439,955)</u>
Change in net assets attributable to the controlling interest	(3,153,480)	2,144,272	-	(1,009,208)
Net assets, beginning of year	16,623,208	38,507,131	345,612	55,475,951
Distributions	-	(16,733)	-	(16,733)
Noncontrolling interest	<u>-</u>	<u>(1,439,955)</u>	<u>-</u>	<u>(1,439,955)</u>
Net assets, end of year	<u>\$ 13,469,728</u>	<u>\$ 39,194,715</u>	<u>\$ 345,612</u>	<u>\$ 53,010,055</u>

See Independent Auditor's Report.

CITY SQUARE HOUSING AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2022

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, GP, LLC	Eliminations	Consolidated CitySquare Housing
ASSETS									
Real Estate, at Cost	\$ 9,414,175	\$ 8,852,139	\$ 26,553,225	\$ -	\$ -	\$ 23,504,225	\$ 16,191,966	\$ (2,565,743)	\$ 81,949,987
Less Accumulated Depreciation	(1,687,903)	(3,099,203)	(8,476,904)	-	-	(4,922,020)	(4,768,380)	772,404	(22,182,006)
Real Estate, Net	7,726,272	5,752,936	18,076,321	-	-	18,582,205	11,423,586	(1,793,339)	59,767,981
Real Estate Held for Sale	340,408	-	-	-	-	-	-	-	340,408
Restricted Deposits and Reserves	-	-	1,160,774	-	-	1,119,051	1,287,244	-	3,567,069
Tax Credit Fees, Net	-	-	11,119	-	-	156,524	188,400	-	356,043
Cash and Cash Equivalents	70,277	1,074	156,614	43,670	48,566	34,595	287,788	-	642,584
Rents Receivable, Net	3,009	16,736	55,669	-	-	532,106	3,433	-	610,953
Insurance Claims Receivable	-	-	-	-	-	143,066	-	-	143,066
Receivables from Related Entities	3,198,016	-	43,659	22,513	-	-	-	(3,264,188)	-
Investments in Related Entities	694,695	-	-	-	-	-	-	(694,695)	-
Notes Receivable from Related Entities	1,053,947	-	-	-	1,040,150	-	-	(2,094,097)	-
Prepaid Expenses	8,797	-	102,198	-	-	49,883	33,381	-	194,259
Other Assets	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 13,095,421	\$ 5,770,746	\$ 19,606,354	\$ 66,183	\$ 1,088,716	\$ 20,617,430	\$ 13,223,832	\$ (7,846,319)	\$ 65,622,363
LIABILITIES AND NET ASSETS									
LIABILITIES									
Notes Payable to Unrelated Entities, Net	\$ 2,802,571	\$ 3,207,686	\$ 9,071,690	\$ -	\$ -	\$ 5,152,568	\$ 2,000,280	\$ -	\$ 22,234,795
Notes Payable to Related Entities	1,040,150	1,893,959	1,846,074	-	-	-	-	(4,763,307)	16,876
Accounts Payable and Accrued Liabilities - Unrelated Entities	253,086	80,988	262,627	52,571	-	748,942	197,772	-	1,595,986
Accounts Payable and Accrued Liabilities - Related Entities	377,749	1,721,813	2,570,839	13,612	-	553,667	98,080	(3,303,745)	2,032,015
Investments in Related Entities	1,777,593	-	-	-	-	-	342,994	(1,777,593)	342,994
Security Deposits	-	-	24,028	-	-	47,375	42,177	-	113,580
Prepaid Rent	6,510	-	10,150	-	-	70,565	4,177	-	91,402
TOTAL LIABILITIES	6,257,659	6,904,446	13,785,408	66,183	-	6,573,117	2,685,480	(9,844,645)	26,427,648
NET ASSETS									
Net Assets Without Donor Restrictions, Controlling	6,837,762	(1,133,700)	694,696	-	1,088,716	-	(657,566)	1,998,326	8,828,234
Net Assets Without Donor Restrictions, Noncontrolling	-	-	5,126,250	-	-	14,044,313	11,195,918	-	30,366,481
TOTAL NET ASSETS	6,837,762	(1,133,700)	5,820,946	-	1,088,716	14,044,313	10,538,352	1,998,326	39,194,715
TOTAL LIABILITIES AND NET ASSETS	\$ 13,095,421	\$ 5,770,746	\$ 19,606,354	\$ 66,183	\$ 1,088,716	\$ 20,617,430	\$ 13,223,832	\$ (7,846,319)	\$ 65,622,363

See Independent Auditors' Report.

CITY SQUARE HOUSING AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, GP, LLC	Eliminations	Consolidated CitySquare Housing
REVENUE AND PUBLIC SUPPORT									
Rental Income, Net of Vacancies	\$587,932	\$247,130	\$2,375,831	\$1,141,431	\$ -	\$1,580,126	\$1,407,326	(\$1,151,639)	\$6,188,137
Tenant Expense Reimbursements	-	58,116	-	-	-	-	-	(1,200)	56,916
Asset and Construction Management Fees	93,940	-	-	-	-	-	-	(93,940)	-
Contributions and Grants-Government	24,150	-	-	-	-	-	-	-	24,150
TOTAL REVENUE AND PUBLIC SUPPORT	706,022	305,246	2,375,831	1,141,431	-	1,580,126	1,407,326	(1,246,779)	6,269,203
EXPENSES									
Administrative	29,451	3,818	89,034	6,000	128	63,832	69,741	(6,000)	256,004
Amortization	-	-	5,663	-	-	18,434	31,599	-	55,696
Bad Debt	2,901	-	52,877	-	-	78,227	2,787	-	136,792
Community Support	-	-	-	-	-	21,538	17,418	-	38,956
Contract Services	459,927	23,643	82,846	146,947	3,150	83,379	88,737	(146,947)	741,682
Depreciation	224,512	187,109	603,494	-	-	638,869	414,425	(64,143)	2,004,266
Electricity and Gas	38,644	74,833	219,513	291,854	-	25,590	24,905	(291,854)	383,485
Insurance	65,118	58,944	108,420	183,569	-	92,652	83,270	(183,569)	408,404
Interest	82,975	180,781	346,311	-	-	308,075	164,998	(6,012)	1,077,128
Loft Condominium Association	58,539	-	-	-	-	-	-	-	58,539
Marketing	-	-	5,472	-	-	9,191	4,531	-	19,194
Occupancy	11,409	-	-	-	-	-	-	(11,409)	-
Partnership and Asset Management Fees	-	-	13,469	-	-	10,000	91,440	(93,940)	20,969
Professional Fees	61,088	-	13,915	-	770	9,946	10,500	-	96,219
Property Management Fees	-	-	90,475	-	-	62,046	56,307	-	208,828
Real Estate Taxes	9,491	75,512	192,295	-	-	216,417	150,281	-	643,996
Repairs and Maintenance	101,085	61,069	230,596	179,533	-	268,361	114,264	(179,533)	775,375
Salaries and Benefits	432,474	-	260,730	-	-	386,821	328,653	-	1,408,678
Security Access	264,812	40,507	176,512	225,921	-	-	-	(225,921)	481,831
State Franchise Taxes	-	-	6,936	-	-	5,413	2,305	-	14,654
Water and Sewer	51,790	10,567	96,438	107,607	-	157,898	95,414	(107,607)	412,107
TOTAL EXPENSES	1,894,216	716,783	2,594,996	1,141,431	4,048	2,456,689	1,751,575	(1,316,935)	9,242,803
OTHER INCOME/(EXPENSE)									
Gain on Debt Forgiveness from Related Entity	2,029,830	-	-	-	(109,398)	-	-	-	1,920,432
Gain on In-substance Defeasement of Notes Payable	-	-	-	-	-	-	-	1,772,827	1,772,827
Equity in Loss of Consolidated Partnerships	(413,228)	-	-	-	-	-	-	413,228	-

See Independent Auditors' Report.

CITY SQUARE HOUSING AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
Year Ended December 31, 2022

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, GP, LLC	Eliminations	Consolidated CitySquare Housing
Equity in Loss of Unconsolidated Partnership	-	-	-	-	-	-	(15,342)	-	(15,342)
Other Income	42,600	-	-	-	-	-	-	(42,600)	-
NET OTHER INCOME/(EXPENSE)	1,659,202	-	-	-	(109,398)	-	(15,342)	2,143,455	3,677,917
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES CONSOLIDATED	471,008	(411,537)	(219,165)	-	(113,446)	(876,563)	(359,591)	2,213,611	704,317
EXCESS OF EXPENSES OVER REVENUE ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	-	(219,143)	-	-	(876,563)	(344,249)	-	(1,439,955)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES ATTRIBUTABLE TO CITY SQUARE HOUSING	\$471,008	(\$411,537)	(\$22)	\$-	(\$113,446)	\$-	(\$15,342)	\$2,213,611	\$2,144,272

See Independent Auditors' Report.



LANE GORMAN TRUBITT, LLC
Accountants & Advisors

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*

Board of Directors
CitySquare and Subsidiaries

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 CitySquare and Subsidiaries (the "Organization"), which comprise the Organization's consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2023.

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, 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 Organization'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.

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

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.

Kane Cormen Trubitt, LLC

Dallas, Texas

September 29, 2023



LANE GORMAN TRUBITT, LLC
Accountants & Advisors

Independent Auditor's Report on Compliance for
Each Major Federal and State Program and on
Internal Control over Compliance Required by the
Uniform Guidance and the Texas Grant Management Standards

Board of Directors
CitySquare and Subsidiaries

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited CitySquare and Subsidiaries' (the "Organization"), except for CityWalk at Akard Master Condominium Association, Inc., Akard Walk Commercial, LLC, Akard Walk Residential, 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* and the *Texas Grant Management Standards* (TxGMS) that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended December 31, 2022. The Organization's major federal and state 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 and state programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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); and TxGMS. Our responsibility under those standards, the Uniform Guidance and TxGMS 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 and state 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 related 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*, the Uniform Guidance and TxGMS 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 and state program as a whole.

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

- Exercise professional judgement 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 and TxGMS, 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 or state 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 and state 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 or state 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 designated to identify all deficiencies in internal control over compliance that might be material weaknesses 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 designated for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

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 and TxGMS. Accordingly, this report is not suitable for any other purpose.

Lane Corman Truhitt, LLC

Dallas, Texas

September 29, 2023

CitySquare and Subsidiaries
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Expenditures of Federal Awards			
U.S. Department of Treasury			
Passed-through United Way of Metropolitan Dallas			
COVID-19 - Emergency Rental Assistance Program	21.023	OCC-2020-00014275	\$ 1,721,920
Total passed-through United Way of Metropolitan Dallas			<u>1,721,920</u>
Total U.S. Department of Treasury			<u>1,721,920</u>
U.S. Department of Agriculture			
Passed-Through Texas Department of Agriculture:			
Child Nutrition Cluster			
Summer Food Service Program for Children	10.559	01636	780,452
Total Child Nutrition Cluster			<u>780,452</u>
Child and Adult Care Food Program	10.558	01636	1,134,135
Total Passed-Through Texas Department of Agriculture			<u>1,914,587</u>
Total U.S. Department of Agriculture			<u>1,914,587</u>
U.S. Department of Housing and Urban Development			
Direct Awards			
Continuum of Care - Destination Home	14.267	N/A	2,032,825
Continuum of Care - Destination Home	14.267	N/A	2,193,974
Continuum of Care - TRAC RRH Dallas	14.267	N/A	105,991
Continuum of Care - TRAC RRH Dallas	14.267	N/A	90,972
Continuum of Care - TRAC RRH Tarrant	14.267	N/A	93,732
Continuum of Care - TRAC RRH Tarrant	14.267	N/A	45,988
Continuum of Care - TRACYHDP Ft. Worth RRH Tarrant	14.267	N/A	11,782
Continuum of Care - TRACYHDP Ft. Worth PSH	14.267	N/A	11,383
Continuum of Care - Shelter Plus Care Program	14.267	N/A	163,523
Continuum of Care - Shelter Plus Care Program	14.267	N/A	105,070
			<u>4,855,240</u>
Passed-Through City of Dallas:			
Community Development Block Grant - Drivers of Poverty	14.218	POM-2021-00016023	80,917
Total passed-through City of Dallas			<u>80,917</u>
Passed-Through Department of Housing and Community Affairs:			
Emergency Solutions Grant Program	14.231	42216000009	9,884
Emergency Solutions Grant CARES Street Outreach	14.231	43206000009	43,914
Total Passed-Through Department of Housing and Community Affairs			<u>53,798</u>
Total U.S. Department of Housing and Urban Development			<u>4,989,955</u>

See accompanying notes to the schedule of expenditures of federal and state awards.

CitySquare and Subsidiaries
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Expenditures of Federal Awards (Continued)			
U.S. Department of Justice			
Passed-Through Dallas County:			
Victims of Crime Act Legal Actions Work	16.575	3847603	\$ 147,154
Victims of Crime Act Transitional Housing	16.575	3847603	189,319
Victims of Crime Act Transitional Housing	16.575	3847604	<u>85,100</u>
Total Passed-Through Dallas County			<u>421,573</u>
Total U.S. Department of Justice			<u>421,573</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	162,275
Preparation for Adult Living	93.674	24259551	70,179
Preparation for Adult Living and Aftercare Services	93.674	24259511	536,443
Preparation for Adult Living and Aftercare Services	93.674	24259511	<u>174,417</u>
Total Passed-Through Texas Department of Family and Protective Services			<u>943,314</u>
Passed-Through Texas Workforce Commission:			
Temporary Assistance for Needy Families	93.558	0622TAN001	112,756
Temporary Assistance for Needy Families	93.558	0622TAN001	3,824
Temporary Assistance for Needy Families	93.558	0623TAN001	35,898
Temporary Assistance for Needy Families	93.558	0522TAN001	108,463
Temporary Assistance for Needy Families	93.558	0522TAN001	1,320
Temporary Assistance for Needy Families	93.558	0523TAN001	<u>36,100</u>
Total Passed-Through Texas Workforce Commission			<u>298,361</u>
Passed-Through United Way of Metropolitan Dallas:			
Healthcare Navigator Program	93.332	NAVCA210434-01-00	386,621
Healthcare Navigator Program	93.332	NAVCA210434-02-00	<u>167,969</u>
Total Passed-Through United Way of Metropolitan Dallas			<u>554,590</u>
Passed-Through City of Dallas:			
COVID-19 - State and Local Recovery Funds	21.027	1505-0271	331,569
COVID-19 - State and Local Recovery Funds	21.027	1505-0271	<u>161,609</u>
Total passed-through City of Dallas			<u>493,178</u>
Total U.S. Department of Health and Human Services			<u>2,289,443</u>
Corporation for National and Community Services			
Passed-Through OneStar National Service Commission			
AmeriCorps State Program	94.006	16AFHTX0010017	1,114,130
AmeriCorps State Program	94.006	16AFHTX0010017	13,045
AmeriCorps State Program	94.006	16AFHTX0010017	<u>397,504</u>
Total Passed-Through OneStar National Service Commission			<u>1,524,679</u>
Total Corporation for National and Community Services			<u>\$ 1,524,679</u>

See accompanying notes to the schedule of expenditures of federal and state awards.

CitySquare and Subsidiaries
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Expenditures of Federal Awards (Continued)			
U.S. Department of Homeland Security			
Direct Award			
Emergency Food and Shelter National Board Program	97.024	N/A	\$ <u>117,500</u>
Total U.S. Department of Homeland Security			<u>117,500</u>
Total Expenditures of Federal Awards			<u>\$ 12,979,657</u>

See accompanying notes to the schedule of expenditures of federal and state awards.

CitySquare and Subsidiaries
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended December 31, 2022

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Grant or Identifying Number</u>	<u>Total State Expenditures</u>
Texas Department of State Health Services			
Passed-Through City of Dallas:			
Healthy Community Collaborative	N/A	MGT-2018-0000-7331	\$ 231,780
Healthy Community Collaborative	N/A	MGT-2018-0000-7331	<u>131,990</u>
			363,770
City of Dallas - TDHCA HHSP Youth Homelessness & Housing Services	N/A	OHS-2021-00016640	118,965
City of Dallas - TDHCA HHSP Youth Homelessness & Housing Services	N/A	OHS-2022-00018736	<u>100,524</u>
			219,489
Passed-Through City of Fort Worth:			
City of Ft. Worth - TDHCA HHSP Youth Homelessness & Housing Services	N/A	56877	<u>179,746</u>
Total Expenditures of State Awards			<u>\$ 763,005</u>
Total Expenditures of Federal and State Awards			<u>\$ 13,742,662</u>

See accompanying notes to the schedule of expenditures of federal and state awards.

CitySquare and Subsidiaries
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended December 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the “Schedule”) includes the federal and state award activity of CitySquare and Subsidiaries (the “Organization”), excluding CitySquare Housing and Subsidiaries, under programs of the federal and state government for the year ended December 31, 2022.

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) and the Award reporting periods do not necessarily coincide with the fiscal reporting period of the Organization. Negative amounts, if any, presented in the Schedule represent adjustments or credits made, in the normal course of business, to expenditures reported in prior years. (“TxGMS”) issued by the Texas Comptroller of Public Accounts.

Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not represent 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 and TxGMS, wherein certain types of expenditures are not allowable or are limited as to reimbursement and, accordingly, are not reflected as expenditures in the Schedule. Award reporting periods do not necessarily coincide with the fiscal reporting period of the Organization. Negative amounts, if any, presented in the Schedule represent adjustments or credits made, in the normal course of business, to expenditures reported in prior years. 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 and TxGMS.

The Organization did not have any federal or state loan programs during the year ended December 31, 2022.

3. CONTINGENCIES

Grants require the fulfillment of certain conditions set forth in grant agreements and are subject to periodic review and assessment by the grantors. Failure to satisfy the requirements of the grant agreements could result in disallowed costs and return of funds to grantors. Management believes the Organization is in substantial compliance with the grant provisions and requirements and that disallowed costs, if any, will not have a material effect on the amounts and disclosures.

CitySquare and Subsidiaries
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2022

I. Summary of Auditor's Results

Financial Statements

The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") was:

Unmodified Qualified Adverse Disclaimer

The independent auditor's report on internal control over financial reporting disclosed:

Internal control over financial reporting:

Significant deficiency(ies) Yes None reported

Material weakness(es) Yes No

Noncompliance material to the financial statements? Yes No

Federal Awards

The independent auditor's report on internal control over major federal awards programs disclosed:

Significant deficiency(ies) Yes None reported

Material weakness(es) Yes No

The type of report the auditor issued on compliance for major federal awards programs:

Unmodified Qualified Adverse Disclaimer

The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Summer Food Service Program for Children	10.559
Child and Adult Care Food Program	10.558
Preparation for Adult Living and Aftercare Services	93.674
COVID-19 State and Local Recovery Funds	21.027
COVID-19 Emergency Rental Assistance Program	21.023

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

Auditee qualified as a low-risk auditee? Yes No

CitySquare and Subsidiaries
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

State Awards

The independent auditor's report on internal control over major state awards programs disclosed:

Significant deficiency(ies) Yes None reported

Material weakness(es) Yes No

The type of report the auditor issued on compliance for major state awards programs:

Unmodified Qualified Adverse Disclaimer

The audit disclosed findings required to be reported by *Texas Grant Management Standards*?

Yes No

Identification of major state programs:

Name of State Program

Healthy Community Collaborative

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

Auditee qualified as a low-risk auditee? Yes No

CitySquare and Subsidiaries
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

II. Financial Statement Findings

No reportable matters.

III. Federal and State Award Findings and Questions Costs

No reportable matters.

IV. Prior Year Federal Award Findings and Questions Costs

No reportable matters.