

CitySquare and Subsidiaries

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

December 31, 2018



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INDEPENDENT AUDITOR'S REPORT

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

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, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Akard Walk Residential, LLC, Wynnewood Family Housing, LP, and Wynnewood Seniors Housing, LP, all controlled subsidiaries, whose statements reflect total assets constituting 58% of consolidated total assets at December 31, 2018, and total revenues constituting 13% of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Akard Walk Residential, LLC, Wynnewood Family Housing, LP, and Wynnewood Seniors Housing, LP, is based solely on the reports of these other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, except for the audit of Akard Walk Commercial, LLC, Akard Walk Condo, LLC, Akard Walk Residential, LLC, City Walk at Akard Master Condominium Association, Inc., Patriot Solar Power, LLC, St. Anne's Hospital, LLC, TEOF, Wynnewood Family Housing, LP, Wynnewood Seniors Housing, LP, and CitySquare Housing, the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CitySquare and Subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 33 - 42 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2019, on our consideration of the Organization's, excluding Akard Walk Commercial, LLC, Akard Walk Condo, LLC, Akard Walk Residential, LLC, City Walk at Akard Master Condominium Association, Inc., Patriot Solar Power, LLC, St. Anne's Hospital, LLC, TEOF, Wynnewood Family Housing, LP, Wynnewood Seniors Housing, LP, and CitySquare Housing, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Armanino^{LLP}
Dallas, Texas

July 26, 2019

CitySquare and Subsidiaries
Consolidated Statement of Financial Position
December 31, 2018

ASSETS

Cash and cash equivalents	\$ 3,610,342
Cash restricted for acquisition of property	220,000
Certificates of deposit	17,517
Restricted deposits	3,034,307
Grants receivable	908,257
Rents receivable, net	413,193
Contributions receivable	370,000
Receivables from related entities	157,765
Investments in related entities	1,617,726
Prepaid and other assets	357,251
Tax credit fees, net	578,803
Property and equipment, net	85,503,232
Long-term notes receivable	<u>8,356,250</u>
 Total assets	 <u><u>\$ 105,144,643</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable to unrelated entities	\$ 1,317,334
Accounts payable to related entities	1,803,060
Accrued expenses and other liabilities	589,726
Line of credit	476,377
Notes payable, net	<u>33,800,817</u>
Total liabilities	<u><u>37,987,314</u></u>
 Net assets	
Without donor restrictions	
Controlling	29,446,540
Noncontrolling	<u>36,352,242</u>
Total without donor restrictions	65,798,782
With donor restrictions	<u>1,358,547</u>
Total net assets	<u><u>67,157,329</u></u>
 Total liabilities and net assets	 <u><u>\$ 105,144,643</u></u>

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

CitySquare and Subsidiaries
Consolidated Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Contributions and grants			
Individuals	\$ 1,113,826	\$ 470,000	\$ 1,583,826
Religious organizations	537,346	265,818	803,164
Corporations	504,629	-	504,629
Foundations	3,585,551	417,589	4,003,140
Federal and state	8,412,719	-	8,412,719
United Way	448,583	-	448,583
In-kind contributions	6,198,411	-	6,198,411
Total contributions and grants	20,801,065	1,153,407	21,954,472
Real estate sales	2,200,000	-	2,200,000
Program revenue	763,145	-	763,145
Sales of merchandise	568,310	-	568,310
Proceeds from fundraising events	1,064,530	-	1,064,530
Less: direct benefit to donors	(553,806)	-	(553,806)
Interest income	94,494	308	94,802
Rental income, net of vacancies	5,438,220	-	5,438,220
Tenant expense reimbursements	102,364	-	102,364
TEOF Hotel investment	687,381	-	687,381
Other revenue	53,386	-	53,386
Total revenues and other support	31,219,089	1,153,715	32,372,804
Net assets released from restriction	1,116,304	(1,116,304)	-
Total revenues and other support	32,335,393	37,411	32,372,804

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

CitySquare and Subsidiaries
Consolidated Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Functional expenses			
Program services			
Hope	10,239,452	-	10,239,452
Housing	10,333,720	-	10,333,720
Hunger	6,817,820	-	6,817,820
Health	<u>1,505,910</u>	<u>-</u>	<u>1,505,910</u>
Total program services	<u>28,896,902</u>	<u>-</u>	<u>28,896,902</u>
Support services			
Management and general	4,602,909	-	4,602,909
Fundraising	<u>895,938</u>	<u>-</u>	<u>895,938</u>
Total support services	<u>5,498,847</u>	<u>-</u>	<u>5,498,847</u>
Total functional expenses	<u>34,395,749</u>	<u>-</u>	<u>34,395,749</u>
Change in net assets from operations	<u>(2,060,356)</u>	<u>37,411</u>	<u>(2,022,945)</u>
Other income/(expense)			
Loss on equity in earnings of related entities	(10,872)	-	(10,872)
Gain on reversal of payables and reserves	115,906	-	115,906
Income from cable contract	6,122	-	6,122
Loss on impairment of investment	<u>(262,381)</u>	<u>-</u>	<u>(262,381)</u>
Total other income/(expense)	<u>(151,225)</u>	<u>-</u>	<u>(151,225)</u>
Change in net assets	(2,211,581)	37,411	(2,174,170)
Noncontrolling interest	<u>(1,782,265)</u>	<u>-</u>	<u>(1,782,265)</u>
Change in net assets attributable to the controlling interest	(429,316)	37,411	(391,905)
Net assets, beginning of year	68,010,363	1,321,136	69,331,499
Noncontrolling interest	<u>(1,782,265)</u>	<u>-</u>	<u>(1,782,265)</u>
Net assets, end of year	<u>\$ 65,798,782</u>	<u>\$ 1,358,547</u>	<u>\$ 67,157,329</u>

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

CitySquare and Subsidiaries
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018

	Hope	Housing	Hunger	Health	Total Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Operating expenses									
Personnel expenses	\$ 5,043,259	\$ 1,506,294	\$ 740,829	\$ 1,350,029	\$ 8,640,411	\$ 1,838,583	\$ 493,325	\$ -	\$ 10,972,319
Direct assistance to clients	3,283,850	10,237	1,164,035	10,583	4,468,705	20,195	2,969	-	4,491,869
Bad debt expense	-	128,060	-	-	128,060	8,472	-	-	136,532
Bank charges	14,755	679	738	396	16,568	4,238	15,535	-	36,341
Other in-kind expenses	247,766	1,299,825	4,475,801	-	6,023,392	-	142,683	-	6,166,075
Contract labor	13,740	-	-	-	13,740	-	-	-	13,740
Cost of sales	-	1,108,411	-	-	1,108,411	-	-	-	1,108,411
Dues and subscriptions	14,502	117	458	110	15,187	10,861	439	-	26,487
Information technology	63,350	5,174	16,559	468	85,551	14,590	16,440	-	116,581
Interest expense	-	902,623	-	-	902,623	303,992	-	-	1,206,615
Legal and professional fees	174,811	596,085	8,449	13,772	793,117	849,690	106,206	-	1,749,013
Marketing	5,434	22,396	-	45	27,875	1,066	49,795	-	78,736
Special events	-	-	-	-	-	-	-	553,806	553,806
New program development costs	-	-	-	-	-	86,474	-	-	86,474
Office expenses	80,883	1,367	3,958	1,776	87,984	7,277	1,499	-	96,760
Occupancy expenses	788,280	1,501,920	324,836	57,847	2,672,883	475,084	29,482	-	3,177,449
Printing and postage	11,429	1,257	1,898	-	14,584	8,045	28,214	-	50,843
Property taxes	43	502,027	1,222	-	503,292	106,055	-	-	609,347
Other	73,623	68,142	1,467	21,230	164,462	3,514	3,972	-	171,948
Supplies and materials	110,634	223,826	14,929	16,506	365,895	34,615	2,520	-	403,030
Telephone	93,083	8,628	5,562	6,576	113,849	65,468	2,691	-	182,008
Travel	220,010	19,952	57,079	26,572	323,613	2,727	168	-	326,508
Total operating expenses before depreciation and amortization	10,239,452	7,907,020	6,817,820	1,505,910	26,470,202	3,840,946	895,938	553,806	31,760,892
Depreciation and amortization	-	2,426,700	-	-	2,426,700	761,963	-	-	3,188,663
Total expenses	10,239,452	10,333,720	6,817,820	1,505,910	28,896,902	4,602,909	895,938	553,806	34,949,555
Less expenses included with revenues on the statement of activities									
Special events	-	-	-	-	-	-	-	(553,806)	(553,806)
Total expenses included in the expense section on the statement of activities	<u>\$ 10,239,452</u>	<u>\$ 10,333,720</u>	<u>\$ 6,817,820</u>	<u>\$ 1,505,910</u>	<u>\$ 28,896,902</u>	<u>\$ 4,602,909</u>	<u>\$ 895,938</u>	<u>\$ -</u>	<u>\$ 34,395,749</u>

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

CitySquare and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	\$ (2,174,170)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization expense	3,188,663
Loss on impairment of investments	262,381
Loss on equity in earnings of related entities	10,872
Gain on reversal of payables and reserves	(115,906)
Changes in operating assets and liabilities	
Certificate of deposits	211,964
Restricted deposits	(4,500)
Grants receivable	(265,242)
Rents receivable, net	(82,027)
Contribution receivable	(370,000)
Receivables from related entities	77,286
Prepaid and other assets	242,843
Accounts payable to unrelated entities	193,611
Accounts payable to related entities	(168,130)
Accrued expenses and other liabilities	<u>8,775</u>
Net cash provided by operating activities	<u>1,016,420</u>
Cash flows from investing activities	
Funding of restricted deposits	(847,787)
Withdrawal of restricted deposits	838,194
Interest on restricted deposits	(2,878)
Investments in related entities	(630,538)
Purchase of property and equipment	(1,134,400)
Disposal of property and equipment	<u>970,342</u>
Net cash used in investing activities	<u>(807,067)</u>
Cash flows from financing activities	
Payment of notes payable	(1,419,821)
Proceeds on line of credit	<u>476,377</u>
Net cash used in financing activities	<u>(943,444)</u>
Net decrease in cash, cash equivalents and restricted cash	(734,091)
Cash, cash equivalents and restricted cash, beginning of year	<u>4,564,433</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 3,830,342</u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 3,610,342
Cash restricted for acquisition of property	<u>220,000</u>
	<u>\$ 3,830,342</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 1,335,948
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The accompanying notes are an integral part of these consolidated financial statements.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

1. NATURE OF OPERATIONS

Nature of operations

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

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

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

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

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

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

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:

- *Graves Properties, LLC ("Graves Properties")* - Formed in 2013 to acquire two properties which were funded by CitySquare totaling \$94,106. Graves had no transactions, assets, or liabilities in 2018.
- *CDM Center of Hope, Inc. ("CDM")* - A Texas nonprofit corporation under CitySquare's common control formed in February 2010 under Section 501(c)(3) of the Internal Revenue Code to own, operate and lease to CitySquare the Opportunity Center Facility. CDM was formed to facilitate New Market Tax Credit financing.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

1. NATURE OF OPERATIONS (continued)

Principles of consolidation (continued)

- *CitySquare Arts Opportunity Center, LLC ("Opportunity Center")* - A Texas nonprofit corporation created in 2017 with CitySquare operating as the sole member. The Opportunity Center was created to facilitate the purchase of the former Forest Theater area and the development of a future arts program yet to be determined.
- *CitySquare Housing Denver, LLC ("CitySquare Denver")* - A Texas nonprofit corporation created in 2017 with CitySquare operating as the sole member. 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.
- *CitySquare Housing ("Housing")* - Housing was founded in 2001 as a Texas nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code to provide affordable housing in Dallas, Texas by anchoring capital locally through the development of residential and commercial property. The following entities are consolidated with Housing in the accompanying consolidated financial statements and are discussed separately in the notes and supplementary information:
 - *CityWalk at Akard Master Condominium Association, Inc. ("MCA")* - CityWalk is a multi-use fifteen story building in downtown Dallas with commercial, residential, and condominium units owned by individuals. MCA was established to pay and charge common building expenses to Akard Walk Commercial, LLC, Akard Walk Residential, LLC and Akard Walk Condo, LLC.
 - *Akard Walk Commercial, LLC ("Commercial")* - Formed to develop, construct, own, maintain, and operate floors one through three and the parking facilities of the CityWalk building for commercial tenants.
 - *Akard Walk Condo, LLC ("AW Condo")* - Formed to develop, construct, own, maintain, and operate the fifteenth floor in the CityWalk building, which consists of six condominiums owned by individuals.
 - *Akard Walk Residential, LLC ("Residential")* - Formed to develop, construct, own, maintain, and operate floors four through thirteen for residential tenants in the CityWalk building.
 - *Patriot Solar Power, LLC ("Patriot Power")* - Formed with the purpose of bringing the benefits of solar power to middle and lower income residents of Dallas.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

1. NATURE OF OPERATIONS (continued)

Principles of consolidation (continued)

- *St. Anne's Hospital, LLC ("St. Anne's")* - Formed to redevelop the former St. Anne Hospital in Abilene, Texas into a multi-unit housing complex for the formerly homeless.
- *TEOF ("TEOF")* - Formed to enhance communities and establish economic opportunities in Dallas, Texas through the creation of opportunities for employment of and housing for low-income workers.
- *Wynnewood Family Housing, LP ("WFH")* - Formed to construct, develop and operate a 161-unit apartment project for low-income families known as High Point Family Apartments in Dallas, Texas.
- *Wynnewood Seniors Housing, LP ("WSH")* - 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.

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

- *Akard Walk Commercial GP, LLC* - The general partner entity of Akard Walk Commercial, LLC, with 100% ownership of the entity.
- *Akard Walk Residential GP, LLC* - The general partner entity of Akard Walk Residential, LLC, with 99.99% ownership of the entity.
- *Wynnewood Family Housing GP, LLC* - The general partner entity of Wynnewood Family Housing, LLC, with 99.995% ownership of the entity.
- *Wynnewood Seniors Housing GP, LLC* - The general partner of Wynnewood Seniors Housing, LLC, with 99.99% ownership of the entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and presentation (continued)

The Organization's financial statements are presented in accordance with Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASU No. 2016-14, the Organization is to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, as defined below:

- *Net assets without donor restrictions* - These are resources that are not subject to donor-imposed restrictions and can be used for the general operations of the Organization.
- *Net assets with donor restrictions* - These are resources that are subject to donor-imposed restrictions that may be met, either by actions of the Organization and/or the passage of time.

Noncontrolling interests

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

Cash and cash equivalents

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

Pursuant to the 2013 issuance of the New Market Tax Credit (NMTC) financing commitment (see Note 3) between the Organization and DDF Delta, LLC, the Organization is required to maintain certain funds for interest payments. Accordingly, the cash reserved for interest payments at December 31, 2018 was \$88,709 and is included within cash and cash equivalents in the consolidated statement of financial position at December 31, 2018 as there is no legal restriction associated.

Restricted cash

Restricted cash relates to funds restricted by donors for long-term use. At December 31, 2018, the Organization had \$220,000 of restricted cash related to amounts restricted by donors for the acquisition of property.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificates of deposit

Certificates of deposit held for investment with an original maturity date greater than three months, that are not debt securities, are disclosed separately from cash and cash equivalents in the accompanying consolidated statement of financial position. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

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.

Grants receivable

Grants receivable represent pending reimbursements of program expenses incurred as of December 31, 2018, both billed and unbilled, and expected to be received from funding sources in the subsequent year. Management considers such receivables at December 31, 2018 to be fully collectible. Accordingly, no allowance for grants receivable was recorded in the accompanying consolidated financial statements. Grants receivable at December 31, 2018 was \$908,257.

Rents receivable

Rents receivable from tenants that are expected to be satisfied within one year after year-end are reported net of an allowance for doubtful accounts of \$3,794. Management's estimate of allowance is based on historical collection experience and a review of these receivables. Uncollectible receivables are charged to bad debt expense upon management's assessment that further collection attempts will be unsuccessful. Rents receivable net of allowance for doubtful accounts at December 31, 2018 was \$413,193.

Receivables from related entities

Receivables from related entities represent amounts owed to Housing from entities that are considered related parties due to either ownership or control. See Note 14 for further disclosure of related party transactions. Management considers such receivables at December 31, 2018 to be fully collectible. Accordingly, no allowance was recorded in the accompanying consolidated financial statements. Receivables from related entities at December 31, 2018 was \$157,765.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in related entities

Investments in related entities accounts for the activity of the Organization recorded under the equity and cost method. Investments in consolidated entities have been eliminated in the consolidated financial statements. See Note 7 for further detail.

Equity method accounting

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

Cost method accounting

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

Impairment of investments

The Organization reviews its investments in related entities each reporting period to determine whether there are identified events or circumstances that would indicate there is a decline in the fair value that would be considered other than temporary. If an investment is deemed to have experienced an other-than-temporary decline below its cost basis, the Organization reduces the carrying amount of the investment to its estimated fair value and establishes a new cost basis for the investment. The Organization presents any such impairment in the other income/(expense) section of the accompanying consolidated statement of activities. During the year ended December 31, 2018, the Organization identified and recorded \$262,381 of such impairment related to the TEOF investment in TEOF Hotel.

Tax credit fees

Tax credit fees are amortized using the straight-line method over the fifteen-year tax credit compliance period. At December 31, 2018, cumulative tax credit fees were \$832,263 and accumulated amortization was \$253,460. Amortization expense was \$55,696 for the year ended December 31, 2018.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Presently, the Organization does not have any assets which have related donor-imposed restrictions.

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

The estimated useful lives are as follows:

Buildings and leasehold improvements	15 - 40 years
Land improvements	15 - 20 years
Furniture and equipment	3 - 10 years
Vehicles	5 years
Software	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. There was no impairment loss related to long-lived assets recognized for the year ended December 31, 2018.

Long-term notes receivable

As part of the Organization's participation in the receipt of new market tax credits, the Organization acted as the Leveraged Lender, as defined in the Loan and Security Agreement dated June 27, 2013, lending \$8,356,250 to AT&T Investment Fund. The note receivable is carried at the unpaid principal balance of \$8,356,250 at December 31, 2018. No payments are required to be made on this receivable until June 27, 2020 from which payments will be made equal to available cash flow after payment of expenses. As of December 31, 2018, management considers the note receivable to be fully collectible. Accordingly, no allowance for loan losses is recorded at December 31, 2018.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. 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 such items as market studies, purchase options, environmental studies, and legal and accounting fees. These costs are capitalized 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.

Compensated absences

The Organization's liability for compensated absences was \$247,704 which was included in accrued expenses in the accompanying consolidated statement of financial position as of December 31, 2018. This represents amounts owed to employees under the Organization's paid time off policy. The Organization's policy is an employee may carry over 120 to 300 hours depending on the number of years of service of the employee.

Loan fees

Loan fees in connection with financing agreements are amortized over the life of the related loan utilizing the straight-line method, which approximates the effective interest method. Loan fees are amortized to interest expense over the terms of the respective loans. Loan fees are presented as a reduction of notes payable. At December 31, 2018, loan fees net of accumulated amortization were \$1,111,038.

Revenue recognition

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on the passage of time. Program income and other income are recognized when received. Conditional promises to give cash or other assets are not recognized until the condition is substantially met. 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 as prepaid rents until earned.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and promises to give

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

Contributions expected to be collected in less than one year are reported at net realizable value. Contributions that are promised in one year but are not expected to be collected until after the end of the year are discounted at an appropriate rate. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management has evaluated the discount for the year ended December 31, 2018 and does not believe the discount to be material. Accordingly, no discount is recorded within the accompanying financial statements. 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. The Organization considers all contributions receivable to be fully collectible at December 31, 2018. Accordingly, no allowance for doubtful contribution receivable is recorded within the accompanying financial statements.

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 \$1.68 per pound, based on a cost study conducted for Feeding America. 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. 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.

Tenant subsidy payments

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction management and developer fees

Construction management and developer fees are earned 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.

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.

Advertising costs

Advertising costs are expensed as incurred. The Organization did not incur any advertising costs for the year ended December 31, 2018.

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, 2018. The Organization's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts and circumstances existing at the time. The Organization uses a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. To the extent that the Organization's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Organization reports tax-related interest and penalties, if applicable, as a component of income tax expense as incurred. As of December 31, 2018, Housing has identified uncertain tax positions in previously filed tax returns but does not anticipate those positions to have a material adverse effect on its operations.

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Patriot Power and AW Condo are considered disregarded entities for tax purposes and are included on Housing's exempt tax return. Graves Properties and Opportunity Center are considered disregarded entities for tax purposes and are 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, as well as the allocation of functional expenses.

Subsequent events

In preparing the accompanying consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 26, 2019, the date the consolidated financial statements were available to be issued.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2018.

3. TAX CREDIT FINANCING

In June 2013, CitySquare entered into a New Market Tax Credit (NMTC) transaction agreement in order to fund the costs of construction of the Opportunity Center facility. The Opportunity Center was fully constructed in 2017, complete with a community food distribution center, café, community health and wellness center, a workforce development center and subleased training space for the Dallas County Local Workforce Board and LIFT (Literacy Instruction for Texas).

The NMTC program was established by the United States Congress to stimulate investment and economic growth in low-income communities by offering a seven-year, 39% federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDEs use capital derived from tax credits to make loans to or investments in (Qualified Low-Income Community Investments - QLICI) businesses and projects in low-income areas. CitySquare, and more specifically the Portion of Business, as described below, is considered the Qualified Active Low-Income Community Business (QALICB) who receives the QLICI. To earn the tax credit, the QEI must remain invested in the CDE for a seven-year period, known as the compliance period.

AT&T Corporation created and invested money into becoming the 100% owner of the AT&T Investment Fund. The AT&T Investment Fund (the Investor) invested a QEI with DDF Delta (the CDE) in the amount of \$12,500,000. Subsequently, DDF Delta provided CitySquare the QLICI in the form of two loans to help finance the construction of the Opportunity Center. These loans totaled \$12,150,000 (see Note 10 for terms of Note Payable). Additionally, as part of this transaction, CDM Center of Hope was created to act as a leveraged lender to loan \$8,356,250 to AT&T Investment Fund (see Note 2 for terms of the long-term note receivable).

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

3. TAX CREDIT FINANCING (continued)

CDM and AT&T Corporation have entered into a put/call option agreement to take place at the end of the seven-year compliance period. Under the agreement, AT&T Corporation can exercise a put option to sell all interest in the AT&T Investment Fund for \$1,000 to CDM. If AT&T Corporation does not exercise the put option within 180 days of the end of the seven-year period, CDM can exercise a call option to purchase the interest of the AT&T Investment Fund at an appraised fair market value.

The NMTC deal requires a separate balance sheet and income statement. To comply with this requirement, a "Portion of Business" section (POB) of CitySquare financial records is maintained and presented as part of the supplementary schedules (see Supplementary Information section). The POB consists of the development, leasing and operation of the Opportunity Center. Accordingly, certain expenses are allocated within POB based on square footage in use at the Opportunity Center. The POB is an integral part of CitySquare and is not a separate corporation. All assets and operations of the POB are separately identified, maintained, and segregated from the assets and operations of CitySquare.

As a community development corporation, Housing receives significant federal, state, and local government sourced subsidies as part of normal operations. These arrangements include Low Income Housing Tax Credits (LIHTCs), State of Texas historic tax credits, low-income housing tax credits, and Section 108 financing. These funding sources and financing arrangements help further Housing's mission to enhance communities and establish economic opportunities in Dallas, Texas through development of affordable, workforce housing and permanent supportive housing for the chronically homeless in the city of Dallas.

4. CONCENTRATION OF CREDIT RISK

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

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

5. RESTRICTED DEPOSITS

Restricted deposits consisted of the following:

Reserves for operating deficits and replacements	\$ 2,392,527
Security deposits	130,214
Insurance and real estate tax escrows	<u>511,566</u>
	<u>\$ 3,034,307</u>

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

Receivables due in less than one year	\$ 170,000
Receivables due in one to five years	<u>200,000</u>
	<u>\$ 370,000</u>

7. INVESTMENTS IN RELATED ENTITIES

Housing owns a 6.12% membership interest in HAGP and a 10% limited partnership interest in TEOF Hotel at December 31, 2018 as described in Note 2 and 14. Due to its general partner investment in HAGP constituting a more-than-minor interest, Housing accounts for its investment using the equity method. The investment in TEOF Hotel represents a minor noncontrolling interest and is accounted for using the cost method in accordance with GAAP.

Investments in related entities consisted of the following:

Investment at January 1, 2018	\$ 1,260,441
TEOF Hotel investment	687,381
Loss on impairment of investment	(262,381)
Cash flow distributions	(56,843)
Equity in earnings (loss) of related entities	<u>(10,872)</u>
Investment at December 31, 2018	<u>\$ 1,617,726</u>

Equity in earnings (loss) of related entities on the accompanying consolidated statement of activities consists of the portion of HAGP and TEOF Hotel's 2018 net operating loss attributable to Housing.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 7,769,547
Land improvements	4,088,378
Buildings	78,684,943
Leasehold improvements	6,491,249
Furniture and equipment	4,842,472
Real estate under development	<u>563,356</u>
	102,439,945
Accumulated depreciation	<u>(16,936,713)</u>
	<u><u>\$ 85,503,232</u></u>

Depreciation expense for the year ended December 31, 2018 was \$3,099,039.

Real estate under development at December 31, 2018 consists of St. Anne's, a historic building apartment revitalization project in Abilene, Texas. Completion of the apartments is scheduled for 2020.

In August 2018, Housing sold an apartment property for \$2,200,000. The sale reduced net real estate by \$970,342 and sales proceeds were used to pay outstanding notes payable to unrelated entities of \$1,026,021.

9. LINE OF CREDIT

CitySquare has a line of credit with a financial institution, of which \$476,377 is outstanding as of December 31, 2018. The 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 total balance available at December 31, 2018 is \$747,380. The line of credit is subject to annual renewal and interest is payable at the corresponding liquidity access line index plus 1.75%.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

10. NOTES PAYABLE

Notes payable are detailed as follows:

Mortgage loan secured by WFH real estate that bears interest at 5.68% and is payable in monthly payments of principal and interest based on a 30-year amortization schedule. The loan matures in 2035.	\$ 5,603,143
Permanent loans from governmental entities that bear no interest and mature through 2030. These loans are secured by Residential's real estate.	5,575,939
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.	3,960,926
Loan secured by Commercial's real estate from a bank requiring monthly payments of principal and interest at 4.25% and maturing in 2040.	3,672,887
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.	2,202,576
Loan secured by Housing real estate from a bank which bears interest at 4.25% and is payable in monthly installments of principal and interest based on a 25-year amortization schedule. The loan matures in 2042.	911,645
Unsecured loan from a bank that bears interest at 7.39% with principal and interest due monthly. The loan matures in 2019.	12,005
Construction loan from third-party. All interest is waived and thus recorded as imputed interest revenue in the consolidated statement of activities. The loan matures in 2020.	847,734
Loan A related to the NMTC to DDF Delta, LLC secured by the Opportunity Center building. Requires annual interest of 1.16%, with interest and principal payments commencing in 2020 through its maturity date in 2043.	8,356,250
Loan B related to the NMTC to DDF Delta, LLC secured by the Opportunity Center building. Requires annual interest of 1.16% with interest and principal payments commencing in 2020 through its maturity date in 2043.	3,768,750
	34,911,855
Less unamortized debt issuance costs	(1,111,038)
	\$ 33,800,817

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

10. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2019	\$ 413,190
2020	648,795
2021	902,690
2022	927,310
2023	954,166
Thereafter	<u>31,065,704</u>
	<u><u>\$ 34,911,855</u></u>

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Scholarships	\$ 139,230
Program grants	564,398
Capital projects	267,403
CEO reserve fund	17,516
Time restricted	<u>370,000</u>
	<u><u>\$ 1,358,547</u></u>

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

Scholarships	\$ 18,102
Program grants	670,179
Capital projects	<u>428,023</u>
	<u><u>\$ 1,116,304</u></u>

12. IN-KIND CONTRIBUTIONS

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

12. IN-KIND CONTRIBUTIONS (continued)

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

Donated professional services	\$ 888,900
Donated food	4,475,801
Donated facilities	355,850
Donated materials and supplies	428,255
Imputed interest	<u>49,605</u>
	<u><u>\$ 6,198,411</u></u>

13. 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 \$153,772 for the year ended December 31, 2018.

14. RELATED PARTY TRANSACTIONS

The Organization has numerous transactions with related parties providing development, construction financing, property management and administrative services to assist CitySquare 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:

- An individual who was a CSH Board member through December 11, 2018 is part owner of T&G Leasing, LLC, which leased space from Commercial. T&G paid \$25,046 to Commercial for the year ended December 31, 2018. The lease agreement between Commercial and T&G Leasing expires in 2020.
- Alliant, Ltd. and affiliates are administrative and investor members of Residential. Bridge loan financing of \$4,733,247 was provided by Alliant, Ltd. to close the Residential mortgage loan. The bridge loan bore interest at 10% and converted to equity when Residential met certain conversion conditions. Conversion took place as of December 22, 2015, at which time accrued interest totaled \$1,794,690. The interest is due at the end of the fifteen-year tax credit compliance period in July 2023 unless certain conditions are met that could result in forgiveness of the interest. Accrued interest on the bridge loan totaled \$1,638,965 at December 31, 2018.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

14. RELATED PARTY TRANSACTIONS (continued)

- Alliant, Ltd. earned \$10,683 in asset management fees from Residential in 2018. Asset management fees payable to Alliant, Ltd. were \$11,319 at December 31, 2018.
- Two of the condominiums operated by AW Condo are owned by the Housing President (who is also a board member). One of the condominiums is owned by a TEOF board member. One of the condominiums is owned by a CitySquare board member.
- TEOF Hotel is a subsidiary of TEOF, 10% owned by TEOF and 90% owned by Hamilton 1011 LP (1011LP), which owns a 237-room hotel project known as the Lorenzo Hotel. A Housing board member is the majority owner of 1011LP. TEOF earned developer fees of \$235,978 upon completion of the Hotel in 2017, of which \$137,319 was outstanding at December 31, 2018.
- 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 \$20,000 at December 31, 2018.
- On June 15, 2011, Housing executed a \$1,600,000 promissory note (the Note) with Atmos LIHTC LLC, an entity in which a Housing board member and their family member have a direct controlling financial interest and a member of Housing management has an indirect non-controlling financial interest. Atmos LIHTC LLC was formed to develop certain affordable housing units located in Dallas County commonly known as the Lone Star Gas Lofts project.

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

As of December 31, 2018, no payments have been made on the Note due to insufficient Net Cash Flows in each annual period commencing January 1, 2013. Prior to December 31, 2018, Housing determined that the likelihood of collecting repayment of the Note is remote and therefore, fully reserved all amounts due under the Note. This remains the assessment of Housing as of December 31, 2018. However, Housing has not released Atmos LIHTC LLC from the Note instrument and would seek to enforce its terms in the event funds sufficient to pay amounts due were available in the future.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

14. RELATED PARTY TRANSACTIONS (continued)

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

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

At December 31, 2018, Housing owned 6.12% of HAGP, having completed transactional events related to TIF Tranche 1 and the sale of certain HTC. See Note 7 for additional detail.

15. COMMITMENTS AND CONTINGENCIES

The Organization has a number of multi-year lease commitments on office equipment and buildings, which are used for the Organization's administration and programs. All of the leases are non-cancelable and expire on various dates through 2022. The lease expense under these leases was \$498,879 for the year ended December 31, 2018.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending December 31,</u>	
2019	\$ 345,154
2020	351,751
2021	335,589
2022	<u>271,789</u>
	<u><u>\$ 1,304,283</u></u>

Future minimum rents

Commercial leases office space to tenants under net operating leases. All of the leases are non-cancelable and expire on various dates through 2021.

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

15. COMMITMENTS AND CONTINGENCIES (continued)

Future minimum rents (continued)

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

Year ending December 31,

2019		\$	378,645
2020			239,538
2021			<u>106,551</u>
		<u>\$</u>	<u>724,734</u>

Guarantees

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

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

Grant and property use restrictions

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

Rental assistance contracts

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

16. 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, 2018 to fund general expenditures:

Financial assets:

Cash and cash equivalents	\$ 3,610,342
Cash restricted for acquisition of property	220,000
Certificates of deposit	17,517
Restricted deposits	3,034,307
Grants receivable	908,257
Rents receivable, net	413,193
Contributions receivable	370,000
Receivables from related entities	157,765
Investments in related entities	1,617,726
Long-term notes receivable	<u>8,356,250</u>
	<u>18,705,357</u>

Less amounts unavailable for general expenditure within one year:

Reserved cash (see Note 2)	(88,709)
Cash restricted for acquisition of property	(220,000)
Restricted deposits	(3,034,307)
Long-term contributions receivable	(200,000)
Other accounts receivable, net	(22,263)
Investments in related entities	(1,617,726)
Long-term notes receivable	(8,356,250)
Donor imposed restrictions	<u>(1,158,547)</u>
	<u>(14,697,802)</u>
Financial assets available for general expenditure within one year	<u>\$ 4,007,555</u>

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

As stated in Note 9 to the financial statements, the Organization has a line of credit, which it could draw upon in the event of a liquidity need. The balance available at December 31, 2018 is \$271,003.

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

CitySquare and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2018

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2019, the date which the financial statements were available for issue.

- In February 2019, CitySquare obtained a secondary line of credit. Maximum borrowings on the line are \$850,000, of which \$100,000 is reserved for Corporate credit cards and the remaining \$750,000 is a revolving line of credit. Interest is charged at a variable rate based on a rate of index set by BOK Financial Corporation, currently at 6.25%, plus 2.0%. The line of credit is secured by all inventory, chattel paper, accounts, equipment, and general intangibles of the Organization. Additionally, it is cross-collateralized against all obligations, debts and liabilities of CitySquare. The line of credit is payable in full on the Lender's demand or otherwise at the date of maturity of February 19, 2020. The \$750,000 line of credit was drawn down by \$700,000 at the date the financial statements were available for issue.
- CitySquare has entered into an agreement with a local church to operate a coffee shop on the church's premises as an extension of its workforce training program. The proceeds from the coffee shop will be utilized to fund the Organization's mission, with 10% of the proceeds given back to the church.

The Organization determined that no additional disclosures were required.

SUPPLEMENTARY INFORMATION

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Financial Position
December 31, 2018

ASSETS

	<u>CitySquare & POB</u>	<u>CDM Center of Hope</u>	<u>CitySquare Arts Opportunity Center, LLC</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
Cash and cash equivalents	\$ 1,495,848	\$ 29,093	\$ 69,678	\$ 2,015,723	\$ -	\$ 3,610,342
Cash restricted for acquisition of property	220,000	-	-	-	-	220,000
Certificates of deposit	17,517	-	-	-	-	17,517
Restricted deposits	24,820	-	-	3,009,487	-	3,034,307
Grants receivable	908,257	-	-	-	-	908,257
Rents receivable, net	-	-	-	413,193	-	413,193
Contributions receivable	370,000	-	-	-	-	370,000
Receivables from related entities	-	-	-	157,765	-	157,765
Due from related entities	974	-	-	-	(974)	-
Investments in related entities	-	-	-	1,617,726	-	1,617,726
Prepaid and other assets	1,367,570	-	26,064	355,498	(1,391,881)	357,251
Tax credit fees, net	-	-	-	578,803	-	578,803
Property and equipment, net	13,213,138	1,188,031	2,198,326	69,049,078	(145,341)	85,503,232
Long-term notes receivable	<u>4,586,923</u>	<u>8,356,250</u>	<u>-</u>	<u>-</u>	<u>(4,586,923)</u>	<u>8,356,250</u>
 Total assets	 <u>\$ 22,205,047</u>	 <u>\$ 9,573,374</u>	 <u>\$ 2,294,068</u>	 <u>\$ 77,197,273</u>	 <u>\$ (6,125,119)</u>	 <u>\$ 105,144,643</u>

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Financial Position
December 31, 2018

LIABILITIES AND NET ASSETS

	<u>CitySquare & POB</u>	<u>CDM Center of Hope</u>	<u>CitySquare Arts Opportunity Center, LLC</u>	<u>CitySquare Housing</u>	<u>Eliminating Entries</u>	<u>Consolidated CitySquare</u>
Liabilities						
Accounts payable to unrelated entities	\$ 373,349	\$ 4,901	\$ -	\$ 939,084	\$ -	\$ 1,317,334
Accounts payable to related entities	-	-	15,992	1,788,610	(1,542)	1,803,060
Accrued expenses and other liabilities	636,109	1,101,005	1,650	155,249	(1,304,287)	589,726
Line of credit	476,377	-	-	-	-	476,377
Notes payable, net	11,538,989	847,734	-	21,414,094	-	33,800,817
Notes payable to related entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,586,923</u>	<u>(4,586,923)</u>	<u>-</u>
Total liabilities	<u>13,024,824</u>	<u>1,953,640</u>	<u>17,642</u>	<u>28,883,960</u>	<u>(5,892,752)</u>	<u>37,987,314</u>
Net assets						
Without donor restrictions						
Controlling	7,821,676	7,619,734	2,276,426	11,961,071	(232,367)	29,446,540
Noncontrolling	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,352,242</u>	<u>-</u>	<u>36,352,242</u>
Total without donor restrictions	7,821,676	7,619,734	2,276,426	48,313,313	(232,367)	65,798,782
With donor restrictions	<u>1,358,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,358,547</u>
Total net assets	<u>9,180,223</u>	<u>7,619,734</u>	<u>2,276,426</u>	<u>48,313,313</u>	<u>(232,367)</u>	<u>67,157,329</u>
Total liabilities and net assets	<u>\$ 22,205,047</u>	<u>\$ 9,573,374</u>	<u>\$ 2,294,068</u>	<u>\$ 77,197,273</u>	<u>\$ (6,125,119)</u>	<u>\$ 105,144,643</u>

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Activities
For the Year Ended December 31, 2018

	CitySquare & POB	CDM Center of Hope	CitySquare Arts Opportunity Center, LLC	CitySquare Housing	Eliminating Entries	Consolidated CitySquare
Revenues and other support						
Contributions and grants						
Individuals	\$ 1,583,696	\$ -	\$ -	\$ 130	\$ -	\$ 1,583,826
Intercompany contributions	171,286	97,000	801,625	-	(1,069,911)	-
Religious organizations	803,164	-	-	-	-	803,164
Corporations	504,624	5	-	-	-	504,629
Foundations	3,678,140	-	325,000	-	-	4,003,140
Federal and state	8,412,719	-	-	-	-	8,412,719
United Way	448,583	-	-	-	-	448,583
In-kind contributions	<u>6,148,806</u>	<u>49,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,198,411</u>
Total contributions and grants	21,751,018	146,610	1,126,625	130	(1,069,911)	21,954,472
Real estate sales	-	-	-	2,200,000	-	2,200,000
Program revenue	763,145	-	-	-	-	763,145
Sales of merchandise	568,310	-	-	-	-	568,310
Proceeds from fundraising events	1,064,530	-	-	-	-	1,064,530
Less: direct benefit to donors	(553,806)	-	-	-	-	(553,806)
Interest income	11,239	83,563	-	-	-	94,802
Rental income, net of vacancies	500	265,717	-	5,350,345	(178,342)	5,438,220
Tenant expense reimbursements	-	-	-	102,364	-	102,364
TEOF Hotel investment	-	-	-	687,381	-	687,381
Other revenue	<u>224,892</u>	<u>-</u>	<u>31,997</u>	<u>2,500</u>	<u>(206,003)</u>	<u>53,386</u>
Total revenues and other support	<u>23,829,828</u>	<u>495,890</u>	<u>1,158,622</u>	<u>8,342,720</u>	<u>(1,454,256)</u>	<u>32,372,804</u>

CitySquare and Subsidiaries
CitySquare Consolidating Statement of Activities
For the Year Ended December 31, 2018

	CitySquare & POB	CDM Center of Hope	CitySquare Arts Opportunity Center, LLC	CitySquare Housing	Eliminating Entries	Consolidated CitySquare
Functional expenses						
Programs	20,527,063	-	-	8,486,840	(117,001)	28,896,902
Management and general	3,995,707	370,171	571,383	1,002,903	(1,337,255)	4,602,909
Fundraising	895,938	-	-	-	-	895,938
Total functional expenses	<u>25,418,708</u>	<u>370,171</u>	<u>571,383</u>	<u>9,489,743</u>	<u>(1,454,256)</u>	<u>34,395,749</u>
Change in net assets from operations	<u>(1,588,880)</u>	<u>125,719</u>	<u>587,239</u>	<u>(1,147,023)</u>	<u>-</u>	<u>(2,022,945)</u>
Other income/(expense)						
Loss on equity in earnings of related entities	-	-	-	(10,872)	-	(10,872)
Gain on reversal of payables and reserves	-	-	-	115,906	-	115,906
Income from cable contract	-	-	-	6,122	-	6,122
Loss on impairment of investment	-	-	-	(262,381)	-	(262,381)
Total other income/(expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(151,225)</u>	<u>-</u>	<u>(151,225)</u>
Change in net assets	<u>(1,588,880)</u>	<u>125,719</u>	<u>587,239</u>	<u>(1,298,248)</u>	<u>-</u>	<u>(2,174,170)</u>
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,782,265)</u>	<u>-</u>	<u>(1,782,265)</u>
Change in net assets attributable to the controlling interest	<u>(1,588,880)</u>	<u>125,719</u>	<u>587,239</u>	<u>484,017</u>	<u>-</u>	<u>(391,905)</u>
Net assets, beginning of year	10,769,103	7,494,015	1,689,187	49,611,561	(232,367)	69,331,499
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,782,265)</u>	<u>-</u>	<u>(1,782,265)</u>
Net assets, end of year	<u>\$ 9,180,223</u>	<u>\$ 7,619,734</u>	<u>\$ 2,276,426</u>	<u>\$ 48,313,313</u>	<u>\$ (232,367)</u>	<u>\$ 67,157,329</u>

CitySquare and Subsidiaries
CitySquare and Portion of Business Consolidating Statement of Financial Position for
Federal Tax Reporting
December 31, 2018

ASSETS

	CitySquare excluding POB	Portion of Business	Eliminating Entries	CitySquare & POB
Cash and cash equivalents	\$ 1,407,609	\$ 88,239	\$ -	\$ 1,495,848
Cash restricted for acquisition of property	220,000	-	-	220,000
Certificates of deposit	17,517	-	-	17,517
Restricted deposits	24,820	-	-	24,820
Grants receivable	908,257	-	-	908,257
Contributions receivable	370,000	-	-	370,000
Due from related parties	974	525	(525)	974
Prepaid and other assets	179,539	1,188,031	-	1,367,570
Property and equipment, net	1,363,842	11,849,296	-	13,213,138
Long-term notes receivable	<u>4,586,923</u>	<u>-</u>	<u>-</u>	<u>4,586,923</u>
Total assets	<u>\$ 9,079,481</u>	<u>\$ 13,126,091</u>	<u>\$ (525)</u>	<u>\$ 22,205,047</u>

LIABILITIES AND NET ASSETS

	CitySquare excluding POB	Portion of Business	Eliminating Entries	CitySquare & POB
Liabilities				
Accounts payable to unrelated parties	\$ 363,578	\$ 9,771	\$ -	\$ 373,349
Accounts payable to related entities	525	-	(525)	-
Accrued expenses and other liabilities	623,838	12,271	-	636,109
Line of credit	476,377	-	-	476,377
Notes payable, net	-	<u>11,538,989</u>	-	<u>11,538,989</u>
Total liabilities	<u>1,464,318</u>	<u>11,561,031</u>	<u>(525)</u>	<u>13,024,824</u>
Net assets				
Without donor restrictions	6,256,616	1,565,060	-	7,821,676
With donor restrictions	<u>1,358,547</u>	<u>-</u>	<u>-</u>	<u>1,358,547</u>
Total net assets	<u>7,615,163</u>	<u>1,565,060</u>	<u>-</u>	<u>9,180,223</u>
Total liabilities and net assets	<u>\$ 9,079,481</u>	<u>\$ 13,126,091</u>	<u>\$ (525)</u>	<u>\$ 22,205,047</u>

CitySquare and Subsidiaries
CitySquare and Portion of Business Consolidating Statement of Activities for
Federal Tax Reporting
For the Year Ended December 31, 2018

	CitySquare excluding POB	Portion of Business	Eliminating Entries	CitySquare & POB
Revenues and other support				
Contributions and grants				
Individuals	\$ 1,583,696	\$ -	\$ -	\$ 1,583,696
Intercompany contributions	118,155	248,398	(195,267)	171,286
Religious organizations	803,164	-	-	803,164
Corporations	504,624	-	-	504,624
Foundations	3,678,140	-	-	3,678,140
Federal and state	8,412,719	-	-	8,412,719
United Way	448,583	-	-	448,583
In-kind contributions	<u>6,148,806</u>	<u>-</u>	<u>-</u>	<u>6,148,806</u>
Total contributions and grants	21,697,887	248,398	(195,267)	21,751,018
Program revenue	763,145	-	-	763,145
Sales of merchandise	568,310	-	-	568,310
Proceeds from fundraising events	1,064,530	-	-	1,064,530
Less: direct benefit to donors	(553,806)	-	-	(553,806)
Interest income	11,239	-	-	11,239
Rental income, net of vacancies	500	-	-	500
Other revenue	<u>18,889</u>	<u>206,003</u>	<u>-</u>	<u>224,892</u>
Total revenues and other support	<u>23,570,694</u>	<u>454,401</u>	<u>(195,267)</u>	<u>23,829,828</u>
Functional expenses				
Programs	20,149,623	377,440	-	20,527,063
Management and general	3,594,053	596,921	(195,267)	3,995,707
Fundraising	<u>895,938</u>	<u>-</u>	<u>-</u>	<u>895,938</u>
Total functional expenses	<u>24,639,614</u>	<u>974,361</u>	<u>195,267</u>	<u>25,418,708</u>
Changes in net assets	(1,068,920)	(519,960)	-	(1,588,880)
Net assets, beginning of year	<u>8,684,083</u>	<u>2,085,020</u>	<u>-</u>	<u>10,769,103</u>
Net assets, end of year	<u>\$ 7,615,163</u>	<u>\$ 1,565,060</u>	<u>\$ -</u>	<u>\$ 9,180,223</u>

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Financial Position
December 31, 2018

ASSETS

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Condo, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	Patriot Solar Power, LLC	St. Anne's Hospital, LLC	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, LP	Eliminating Entries	Consolidated CitySquare Housing
Cash and cash equivalents	\$ 566,354	\$ 92,784	\$ -	\$ 62,025	\$ 618,896	\$ -	\$ -	\$ 115,087	\$ 58,371	\$ 502,206	\$ -	\$ 2,015,723
Restricted deposits	-	-	-	849,402	-	-	-	-	1,071,179	1,088,906	-	3,009,487
Rents receivable, net	17,130	1,469	-	16,804	-	-	-	-	368,774	9,016	-	413,193
Receivables from related entities	3,889,376	8,161	-	557,956	62,760	-	-	137,319	-	-	(4,497,807)	157,765
Other accounts receivable, net	-	-	-	-	-	-	-	-	15,042	-	-	15,042
Investments in related entities	754,402	-	-	-	-	-	-	1,100,000	-	-	(236,676)	1,617,726
Prepaid and other assets	215,011	-	-	76,809	-	-	-	-	32,393	16,243	-	340,456
Tax credit fees, net	-	-	-	33,747	-	-	-	-	230,260	314,796	-	578,803
Property and equipment, net	8,788,078	6,550,318	-	20,598,961	-	-	563,356	-	21,517,550	13,080,726	(2,049,911)	69,049,078
Long-term notes receivable	893,177	-	-	-	-	-	-	1,040,150	-	-	(1,933,327)	-
Total assets	<u>\$ 15,123,528</u>	<u>\$ 6,652,732</u>	<u>\$ -</u>	<u>\$ 22,195,704</u>	<u>\$ 681,656</u>	<u>\$ -</u>	<u>\$ 563,356</u>	<u>\$ 2,392,556</u>	<u>\$ 23,293,569</u>	<u>\$ 15,011,893</u>	<u>\$ (8,717,721)</u>	<u>\$ 77,197,273</u>

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Financial Position
December 31, 2018

LIABILITIES AND NET ASSETS

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Condo, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	Patriot Solar Power, LLC	St. Anne's Hospital, LLC	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, LP	Eliminating Entries	Consolidated CitySquare Housing
Liabilities												
Accounts payable to unrelated entities	\$ 114,221	\$ 108,009	\$ -	\$ 228,852	\$ 79,632	\$ -	\$ 24,091	\$ -	\$ 261,056	\$ 123,223	\$ -	\$ 939,084
Accounts payable to related entities	129,645	1,337,496	-	3,638,965	602,024	-	129,265	-	332,271	156,308	(4,537,364)	1,788,610
Security deposits	-	-	-	17,960	-	-	-	-	46,591	38,458	-	103,009
Prepaid rents	1,536	24,598	-	15,069	-	-	-	-	6,992	4,045	-	52,240
Notes payable to unrelated entities	912,165	3,651,914	-	9,236,790	-	-	-	-	5,480,287	2,132,938	-	21,414,094
Notes payable to related entities	<u>3,839,829</u>	<u>1,877,084</u>	<u>-</u>	<u>1,846,074</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,976,064)</u>	<u>4,586,923</u>
Total liabilities	<u>4,997,396</u>	<u>6,999,101</u>	<u>-</u>	<u>14,983,710</u>	<u>681,656</u>	<u>-</u>	<u>153,356</u>	<u>-</u>	<u>6,127,197</u>	<u>2,454,972</u>	<u>(7,513,428)</u>	<u>28,883,960</u>
Net assets												
Controlling	10,126,132	(346,369)	-	694,824	-	-	410,000	2,392,556	-	(111,779)	(1,204,293)	11,961,071
Noncontrolling	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,517,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,166,372</u>	<u>12,668,700</u>	<u>-</u>	<u>36,352,242</u>
Total net assets	<u>10,126,132</u>	<u>(346,369)</u>	<u>-</u>	<u>7,211,994</u>	<u>-</u>	<u>-</u>	<u>410,000</u>	<u>2,392,556</u>	<u>17,166,372</u>	<u>12,556,921</u>	<u>(1,204,293)</u>	<u>48,313,313</u>
Total liabilities and net assets	<u>\$ 15,123,528</u>	<u>\$ 6,652,732</u>	<u>\$ -</u>	<u>\$ 22,195,704</u>	<u>\$ 681,656</u>	<u>\$ -</u>	<u>\$ 563,356</u>	<u>\$ 2,392,556</u>	<u>\$ 23,293,569</u>	<u>\$ 15,011,893</u>	<u>\$ (8,717,721)</u>	<u>\$ 77,197,273</u>

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Activities
For the Year Ended December 31, 2018

	<u>CitySquare Housing</u>	<u>Akard Walk Commercial, LLC</u>	<u>Akard Walk Condo, LLC</u>	<u>Akard Walk Residential, LLC</u>	<u>City Walk at Akard Master Condominium Association, Inc.</u>	<u>Patriot Solar Power, LLC</u>	<u>St. Anne's Hospital, LLC</u>	<u>TEOF</u>	<u>Wynnewood Family Housing, LP</u>	<u>Wynnewood Seniors Housing, LP</u>	<u>Eliminating Entries</u>	<u>CitySquare Housing</u>
Revenues and other support												
Contributions and grants												
Individuals	\$ 130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130
Total contributions and grants	130	-	-	-	-	-	-	-	-	-	-	130
Real estate sales	2,200,000	-	-	-	-	-	-	-	-	-	-	2,200,000
Rental income, net of vacancies	560,432	529,427	-	1,765,919	731,552	-	-	-	1,462,161	1,115,637	(814,783)	5,350,345
Tenant expense reimbursements	-	110,269	-	-	-	-	-	-	-	-	(7,905)	102,364
Asset management fees	80,152	-	-	-	-	-	-	-	-	-	(80,152)	-
Consulting fees	-	-	-	-	-	2,500	-	-	-	-	-	2,500
TEOF Hotel investment	-	-	-	-	-	-	-	687,381	-	-	-	687,381
Total revenues and other support	<u>2,840,714</u>	<u>639,696</u>	<u>-</u>	<u>1,765,919</u>	<u>731,552</u>	<u>2,500</u>	<u>-</u>	<u>687,381</u>	<u>1,462,161</u>	<u>1,115,637</u>	<u>(902,840)</u>	<u>8,342,720</u>

CitySquare and Subsidiaries
CitySquare Housing Consolidating Statement of Activities
For the Year Ended December 31, 2018

	CitySquare Housing	Akard Walk Commercial, LLC	Akard Walk Condo, LLC	Akard Walk Residential, LLC	City Walk at Akard Master Condominium Association, Inc.	Patriot Solar Power, LLC	St. Anne's Hospital, LLC	TEOF	Wynnewood Family Housing, LP	Wynnewood Seniors Housing, LP	Eliminating Entries	CitySquare Housing
Functional expenses												
Programs	2,581,022	-	-	2,281,501	731,552	-	-	7,200	2,195,593	1,655,062	(965,090)	8,486,840
Management and general	280,434	730,374	-	-	-	-	-	-	-	-	(7,905)	1,002,903
Total functional expenses	<u>2,861,456</u>	<u>730,374</u>	<u>-</u>	<u>2,281,501</u>	<u>731,552</u>	<u>-</u>	<u>-</u>	<u>7,200</u>	<u>2,195,593</u>	<u>1,655,062</u>	<u>972,995</u>	<u>9,489,743</u>
Change in net assets from operations	<u>(20,742)</u>	<u>(90,678)</u>	<u>-</u>	<u>(515,582)</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>680,181</u>	<u>(733,432)</u>	<u>(539,425)</u>	<u>70,155</u>	<u>(1,147,023)</u>
Other income/ (expenses)												
Equity in earnings of consolidating partnerships	25,176	-	-	-	-	-	-	-	-	-	(25,176)	-
Loss on equity in earnings of related entities	(20,580)	-	-	-	-	-	-	9,708	-	-	-	(10,872)
Gain on reversal of payables and reserves	-	-	115,906	-	-	-	-	-	-	-	-	115,906
Income from cable contract	-	-	-	-	-	-	-	-	6,122	-	-	6,122
Loss on impairment of investment	-	-	-	-	-	-	-	(262,381)	-	-	-	(262,381)
Other income	42,600	-	-	-	-	-	-	-	-	-	(42,600)	-
Total other income/ (expenses)	<u>47,196</u>	<u>-</u>	<u>115,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(252,673)</u>	<u>6,122</u>	<u>-</u>	<u>(67,776)</u>	<u>(151,225)</u>
Change in net assets	26,454	(90,678)	115,906	(515,582)	-	2,500	-	427,508	(727,310)	(539,425)	2,379	(1,298,248)
Net assets, beginning of year	<u>10,382,278</u>	<u>(255,691)</u>	<u>(921,466)</u>	<u>7,727,576</u>	<u>-</u>	<u>124,900</u>	<u>-</u>	<u>1,965,048</u>	<u>17,893,682</u>	<u>13,096,346</u>	<u>(401,112)</u>	<u>49,611,561</u>
Net assets, end of year	<u>\$ 10,408,732</u>	<u>\$ (346,369)</u>	<u>\$ (805,560)</u>	<u>\$ 7,211,994</u>	<u>\$ -</u>	<u>\$ 127,400</u>	<u>\$ -</u>	<u>\$ 2,392,556</u>	<u>\$ 17,166,372</u>	<u>\$ 12,556,921</u>	<u>\$ (398,733)</u>	<u>\$ 48,313,313</u>

SINGLE AUDIT REPORTS AND SCHEDULES



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of CitySquare and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 26, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino^{LLP}
Dallas, Texas

July 26, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited CitySquare and Subsidiaries (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

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

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



Armanino^{LLP}
Dallas, Texas

July 26, 2019

CitySquare and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Agriculture			
Passed-Through Texas Department of Agriculture:			
Child Nutrition Cluster			
Summer Food Service Program for Children	10.559	01636	\$ 719,271
Total Child Nutrition Cluster			719,271
Child and Adult Care Food Program	10.558	02098	714,299
Total Passed-Through Texas Department of Agriculture			<u>1,433,570</u>
Total U.S. Department of Agriculture			<u>1,433,570</u>
U.S. Department of Housing and Urban Development			
Direct awards			
Continuum of Care - Destination Home	14.267	N/A	850,891
Continuum of Care - Destination Home	14.267	N/A	440,404
Continuum of Care - Destination Home	14.267	N/A	252,190
Continuum of Care - Destination Home	14.267	N/A	849,495
Continuum of Care - Destination Home	14.267	N/A	388,897
Continuum of Care - Destination Home	14.267	N/A	251,915
Continuum of Care - TRAC TL	14.267	N/A	72,995
Continuum of Care - TRAC TL	14.267	N/A	86,558
Continuum of Care - TRAC RRH Dallas	14.267	N/A	61,451
Continuum of Care - TRAC RRH Tarrant	14.267	N/A	8,798
Continuum of Care - Shelter Plus Care Program	14.267	N/A	152,589
Continuum of Care - Shelter Plus Care Program	14.267	N/A	101,389
Continuum of Care - St. Jude	14.267	N/A	4,034
			<u>3,521,606</u>
Passed-Through City of Irving:			
Community Development Block Grant / Entitlement Grants	14.218	PO212554	4,001
Total Passed-Through City of Irving			<u>4,001</u>
Passed-Through Department of Housing and Community Affairs			
Emergency Solutions Grant Program	14.231	42170002815	159,542
Emergency Solutions Grant Program	14.231	42180000010	34,259
Total Passed-Through Department of Housing and Community Affairs			<u>193,801</u>
Total U.S. Department of Housing and Urban Development			<u>3,719,408</u>
U.S. Department of Justice			
Passed-through Dallas County			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DC-NY- K002	122,016
Total Passed-through Dallas County			<u>122,016</u>
Total U.S. Department of Justice			<u>122,016</u>

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

CitySquare and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Health and Human Services			
Passed-Through Texas Department of Family and Protective Services:			
Preparation for Adult Living	93.674	24259551	141,126
Preparation for Adult Living	93.674	24259551	58,900
Preparation for Adult Living and Aftercare Services	93.674	24259511	406,235
Preparation for Adult Living and Aftercare services	93.674	24259511	<u>191,778</u>
Total Passed-Through Texas Department of Family and Protective Services			<u>798,039</u>
Passed-Through Texas Workforce Commission:			
Temporary Assistance for Needy Families	93.558	0618TAN001	95,385
Temporary Assistance for Needy Families	93.558	0619TAN001	29,526
Temporary Assistance for Needy Families	93.558	0518TAN001	97,738
Temporary Assistance for Needy Families	93.558	0519TAN001	<u>28,373</u>
Total Passed-Through Texas Workforce Commission			<u>251,022</u>
Passed-Through National Institute of Environmental Health Sciences:			
Hazardous Waste Worker Health and Safety Training	93.142	5 U45 ES007850	<u>53,182</u>
Total Passed-Through National Institute of Environmental Health Sciences			<u>53,182</u>
Total U.S. Department of Health and Human Services			<u>1,102,243</u>
Corporation for National and Community Services			
Passed-Through OneStar National Service Commission			
AmeriCorps State Program	94.006	13AFHTX0010005	773,991
AmeriCorps State Program	94.006	16AFHTX0010017	422,163
AmeriCorps Planning	94.006	16AFHTX0010009	<u>36,829</u>
Total Passed-Through OneStar National Service Commission			<u>1,232,983</u>
Total Corporation for National and Community Services			<u>1,232,983</u>
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>35,000</u>
Total U.S. Department of Homeland Security			<u>35,000</u>
Total Expenditures of Federal Awards			<u>\$ 7,645,220</u>

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

CitySquare and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
December 31, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of CitySquare and Subsidiaries (the "Organization") under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable. The Organization has elected to not use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

CitySquare and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.559
AmeriCorps	94.006

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

CitySquare and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

CitySquare and Subsidiaries
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2018

Finding number: 2017-001
Condition: Various organizations donate food to CitySquare for distribution at CitySquare's food pantry.
Status: Corrective action was taken.

Finding number: 2017-002
Condition: CitySquare Housing lacked well-designed control processes and formalized documentation of timely review of accounting schedules and journal entries.
Status: Corrective action was taken.

Finding number: 2017-003
Condition: CitySquare was in compliance with program income requirements related to the reinvestment of Continuum of Care payments, however there was a lack of documented monitoring throughout the year.
Status: Corrective action was taken.