

DUDLEY NEIGHBORS INCORPORATED

Financial Statements
and
Independent Auditors' Report

June 30, 2004 with Comparative Totals for 2003



Daniel Dennis & Company LLP
Certified Public Accountants

116 Huntington Avenue
Boston, MA 02116
(617) 262-9898
FAX: (617) 437-9937

Web Site: <http://www.danieldennis.com>

Dudley Neighbors Incorporated

Contents

	<i>Page</i>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5

Daniel Dennis & Company LLP

Certified Public Accountants

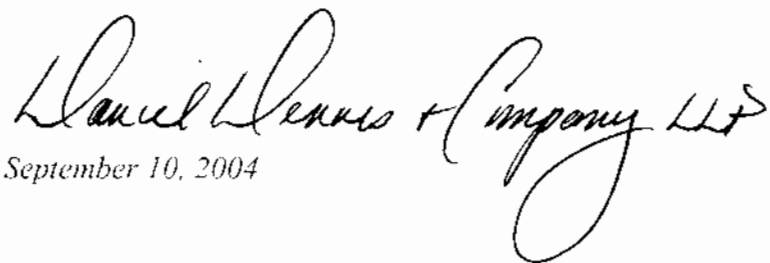
To the Board of Directors of
Dudley Neighbors Incorporated

Independent Auditors' Report

We have audited the accompanying statement of financial position of Dudley Neighbors Incorporated (DNI) as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of DNI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from DNI's 2003 financial statements and, in our report dated August 25, 2003 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of DNI as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Daniel Dennis & Company LLP

September 10, 2004

Dudley Neighbors Incorporated
Statement of Financial Position
June 30, 2004 with Comparative Totals for 2003

	<i>2004</i>	<i>2003</i>
<i>Assets</i>		
<hr/>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 138,032	\$ 97,622
Accounts receivable (net of allowance of \$37, 613 and \$37,613)	38,110	48,417
Grants and contributions receivable	1,500	1,500
Prepaid expenses	<u>8,266</u>	<u>7,142</u>
Total current assets	<u>185,908</u>	<u>154,681</u>
<i>Non-Current Assets:</i>		
Loan receivable	67,000	67,000
Deferred lease fee	80,000	80,000
Interest receivable	<u>123,132</u>	<u>104,341</u>
Total non-current assets	<u>270,132</u>	<u>251,341</u>
<i>Property and Equipment, Net</i>	<u>3,850,178</u>	<u>3,792,945</u>
Total assets	<u>\$ 4,306,218</u>	<u>\$ 4,198,967</u>
<i>Liabilities and Net Assets</i>		
<hr/>		
<i>Liabilities:</i>		
Accounts payable and accrued expenses	\$ 11,469	\$ 29,161
Accrued property taxes	69,356	57,025
Due to related entity	<u>3,145</u>	<u>1,674</u>
Total liabilities	<u>83,970</u>	<u>87,860</u>
<i>Net Assets:</i>		
Unrestricted		
Designated for land acquisitions and maintenance	289,199	289,199
Undesignated	<u>3,933,049</u>	<u>3,821,908</u>
Total unrestricted net assets	<u>4,222,248</u>	<u>4,111,107</u>
Total liabilities and net assets	<u>\$ 4,306,218</u>	<u>\$ 4,198,967</u>

See accompanying notes to financial statements.

Dudley Neighbors Incorporated

Statement of Activities

For the Year Ended June 30, 2004 with Summarized Comparative Totals for 2003

	2004	2003
<i>Change in Unrestricted Net Assets:</i>		
<i>Revenue and Support:</i>		
Ground leases	\$ 64,702	\$ 64,618
Property taxes	116,347	121,635
Grants and contributions	116,972	99,700
Rental income	19,656	17,745
Interest	19,016	19,580
Other income	1,390	831
Loss on sale of assets	<u>-</u>	<u>(2,048)</u>
Total revenue and support	<u>338,083</u>	<u>322,061</u>
<i>Expenses:</i>		
Community Development	204,682	219,113
Management and general	19,847	41,718
Fundraising	<u>2,413</u>	<u>6,789</u>
Total expenses	<u>226,942</u>	<u>267,620</u>
Change in net assets	<u>111,141</u>	<u>54,441</u>
Net assets, beginning of year	<u>4,111,107</u>	<u>4,056,666</u>
Net assets, end of year	<u>\$ 4,222,248</u>	<u>\$ 4,111,107</u>

See accompanying notes to financial statements.

Dudley Neighbors Incorporated
Statement of Cash Flows
For the Year Ended June 30, 2004 with Comparative Totals for 2003

	<i>2004</i>	<i>2003</i>
<i>Cash Flows From Operating Activities</i>		
Change in net assets	\$ 111,141	\$ 54,441
Adjustment to reconcile change in net assets to net cash (used in)/ provided by operating activities:		
Loss on sale of assets	-	2,048
Bad debt expense	-	10,282
Donated property and equipment	(45,100)	(34,960)
Depreciation	22,040	20,144
(Increase)/decrease in operating assets:		
Accounts receivable	10,307	(23,799)
Interest receivable	(18,791)	(17,481)
Prepaid expenses	(1,124)	7,556
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	(17,692)	(20,049)
Accrued property taxes	12,331	(50,035)
Due to related entity	1,471	(45,310)
Net cash (used in)/ provided by operating activities	<u>74,583</u>	<u>(97,163)</u>
<i>Cash Flows From Investing Activities</i>		
Proceeds from sale of property and equipment	-	120,500
Property and equipment purchases	(34,173)	(54,609)
Net cash provided by/ (used in) investing activities	<u>(34,173)</u>	<u>65,891</u>
<i>Cash Flows From Financing Activities</i>		
Payment on line of credit	-	(110,000)
Cash released from restrictions	-	38,022
Net cash (used in)/ provided by financing activities	<u>-</u>	<u>(71,978)</u>
Net (decrease)/ increase in cash	40,410	(103,250)
Cash at beginning of year	<u>97,622</u>	<u>200,872</u>
Cash at end of year	<u>\$ 138,032</u>	<u>\$ 97,622</u>
<i>Supplemental Information</i>		
Interest paid	<u>\$ -</u>	<u>\$ 5,573</u>
Donated property and equipment	<u>\$ 45,100</u>	<u>\$ 34,960</u>

See accompanying notes to financial statements.

Dudley Neighbors Incorporated

Notes to Financial Statements

June 30, 2004

1. *Organization*

Dudley Neighbors Incorporated (DNI) is a Massachusetts nonprofit tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. DNI, located in Roxbury, Massachusetts, is a community land trust and urban revitalization corporation organized under the Commonwealth of Massachusetts General Laws Chapter 121A. DNI was organized to ensure the residents of the Dudley neighborhood will always own the land in the Dudley Triangle, a 30-acre section of Roxbury and North Dorchester, Massachusetts, eliminate blight and carry on community revitalization activity under a regulatory agreement with the Boston Redevelopment Authority. The regulatory agreement regulates DNI's operations and grants DNI eminent domain authority to acquire privately owned vacant land in the Dudley Triangle.

DNI was organized by the Dudley Street Neighborhood Initiative, Inc. (DSNI), a nonprofit tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code, to carry out the housing development component of DSNI's Comprehensive Master Plan guide to revitalizing the Dudley Street neighborhood. DSNI has a controlling interest in DNI through its power to appoint six out of nine voting members of DNI's 11-member board. DSNI has the ability to require that the six voting members come from among its board. Five of DNI's nine voting board members at June 30, 2004 were also board members of DSNI.

DNI is the sole member of Dudley Investments for Neighborhood Economics, Inc. (DINE), a Massachusetts nonprofit corporation currently seeking tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. DINE has had no financial activity since its organization in 1999.

To achieve its mission, DNI operates a community development program that primarily acquires vacant land, leases it to private and non-profit developers for the purpose of building affordable housing in accordance with the Comprehensive Master Plan. Upon sale of the housing/ improvements, DNI enters into a 99-year ground lease with the homeowner or project owner in the case of a cooperative development.

Funding for DNI is provided primarily by ground lease income and property tax recoveries.

2. *Summary of Significant Accounting Policies*

Basis of Accounting

DNI prepares its financial statements on the accrual basis of accounting. Accordingly, revenue is recorded when earned and expenses when goods are received or services rendered.

Dudley Neighbors Incorporated
Notes to Financial Statements - *Continued*
June 30, 2004

2. *Summary of Significant Accounting Policies - Continued*

Cash and Cash Equivalents

For purposes of the statement of cash flows, DNI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Grants and Contributions

Grants and contributions are recognized when the donor makes a promise to give to DNI that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the grants or contributions are recognized. All other donor-restricted grants and contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

DNI uses the allowance method to determine uncollectible unconditional grants and contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2004 there were no uncollectible grants or contributions and all outstanding amounts were due within one year.

Property and Equipment

Donations of property and equipment and land taken through eminent domain are recorded as support at their estimated fair value. Donated property and equipment are reported as unrestricted support 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 property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, DNI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. DNI reclassifies temporarily restricted net assets to unrestricted net assets at that time. Purchased property and equipment are carried at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Repairs and maintenance are charged to operations. Betterments, renewals, and purchases of more than \$500 are capitalized.

During 2004, DNI received a donation of land valued at \$45,100 from the City of Boston.

Loans Receivable

Loans receivable are stated at unpaid principal balances, less allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the compound-interest method on the total principal and interest amounts outstanding.

Dudley Neighbors, Incorporated
Notes to Financial Statements - *Continued*
June 30, 2004

2. *Summary of Significant Accounting Policies - Continued*

Accounts Receivable

Accounts receivable are presented net of the allowance for doubtful accounts. DNI's periodic evaluation of the adequacy of the allowance is based on its past loss experience. Accounts receivables are charged off when they are over 90 days past due.

Donated Goods and Services

DNI receives donated goods and services in support of its programs. Donated goods and services are recorded at fair value. Donated services that (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated are recorded as contributions in the financial statements. Donated services such as fund-raising, clerical assistance, or other volunteer efforts not requiring specialized skills are not recorded in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summarized Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with DNI's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

Dudley Neighbors Incorporated
Notes to Financial Statements - *Continued*
June 30, 2004

3. *Related Entity Transactions*

DSNI pays the payroll and benefits of DNI employees and subsequently bills DNI for these costs. DSNI also provides office space and the use of office equipment to DNI and charges a nominal management fee of \$2,400 annually. During 2004 and 2003, DSNI paid \$39,996 and \$33,880, respectively, of payroll and benefits costs directly related to DNI and was reimbursed \$36,851 and \$32,206 respectively. At June 30, 2004 and 2003, \$3,145 and \$1,674, respectively, was due to DSNI.

In addition, DSNI provides grants to DNI and pays DNI for contract services provided to DSNI. During 2003, DNI was awarded a \$1,500 grant from DSNI to support resident outreach.

4. *Ground Leases*

DNI has various 99-year ground leases. At June 30, 2004 and 2003, the carrying value of developed properties used for leasing was \$3,447,718. Minimum ground lease payments for the next five years are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2005	\$ 64,996
2006	65,305
2007	65,629
2008	65,969
2009	<u>66,327</u>
Total	<u>\$ 328,226</u>

DNI also leases commercial space on one to three-year lease terms expiring in 2005. Income from commercial leases totaled \$19,656 and \$17,745 for 2004 and June 30, 2003 respectively. The remaining rent due over the term of the three-year lease is \$5,694.

5. *Loan Receivable*

Loans receivable represents the remaining balance of a \$367,000 mortgage loan assigned to DNI by the City of Boston on March 1, 1994. The loan is due from Stafford Heights Limited Partnership for a cooperative housing development built on land acquired by DNI. The loan accrues interest at 7.88% per annum, compounded annually, and matures on December 31, 2022. All payments of principal and deferred interest are due at maturity. The loan is secured by a third mortgage on the building. Interest income accrued during 2004 and 2003 was \$10,723 and \$9,940 respectively. Total accrued interest at June 30, 2004 and 2003 was \$79,806 and \$69,083, respectively.

Dudley Neighbors, Incorporated
Notes to Financial Statements - *Continued*
June 30, 2004

6. *Deferred Lease Fee*

DNI has a ground lease with Brook Veterans Limited Partnership that requires the payment of an initial acquisition fee of \$80,000. The lease agreement allows for the deferment of payment until February 11, 2013. Interest on the unpaid balance accrues at a rate of 7% per annum, compounded annually. Interest income accrued during 2004 and 2003 was \$8,068 and \$7,541 respectively. Total accrued interest at June 30, 2004 and 2003 was \$43,325 and \$35,257, respectively.

7. *Property and Equipment*

Property and equipment at June 30, 2004 and 2003, consisted of the following:

<i>Description</i>	<i>2004</i>	<i>2003</i>
Land	\$ 3,675,301	\$ 3,630,201
Building and improvements	250,204	240,016
Improvements in process	23,040	-
Furniture and equipment	<u>22,646</u>	<u>21,701</u>
Total	3,971,191	3,891,918
Less: accumulated depreciation	<u>(121,013)</u>	<u>(98,973)</u>
Net property and equipment	<u>\$ 3,850,178</u>	<u>\$ 3,792,945</u>

Depreciation expense for the years ended June 30, 2004 and 2003 was \$22,040 and \$20,144, respectively.

8. *Donated Services*

During 2004 and 2003, DNI received legal services on a pro-bono basis in support of its community development program. The law firm could not provide the value of this contribution. Therefore, it is not included in the accompanying financial statements.

9. *Property Taxes*

DNI has entered into a Chapter 121A agreement with the Commonwealth of Massachusetts which exempts all real property from local taxation and subjects the property to an alternative tax. This alternative tax payment is due by March 15 to the Commonwealth of Massachusetts. Taxes are charged to property owners that lease DNI land to cover the related property tax. Real estate tax expense for the years ended June 30, 2004 and 2003 was \$123,235 and \$116,534, respectively. Accrued taxes payable was \$60,095 and \$54,620, respectively, at June 30, 2004 and 2003.

Dudley Neighbors, Incorporated
Notes to Financial Statements - *Continued*
June 30, 2004

10. Concentrations of Risk

Cash

DNI maintains cash accounts at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2004, accounts in certain financial institutions exceeded the FDIC insurance coverage limits by \$52,049. At June 30, 2003, there were no uninsured accounts. DNI has not experienced any losses in the accounts. DNI believes it is not exposed to any significant credit risk on cash balances within those accounts.

Receivables

Total receivables from Stafford Heights Limited Partnership (\$146,806 in 2004 and \$136,083 in 2003) and Brook Veterans Limited Partnership (\$157,835 in 2004 and \$149,766 in 2003) represented 99% and 95%, respectively, of DNI's total receivables at June 30, 2004 and 2003.

DNI follows the practice of filing statutory liens on all projects where collection problems are anticipated. The liens serve as collateral for the receivables.

11. Environmental Contingencies

DNI owns a vacant parcel of land formerly used as an auto repair garage. DNI is working with DSNI to redevelop the property as a commercial greenhouse. Massachusetts Highway Department (MHD), working on a Supplemental Environmental Project (SEP) mandated by the Environmental Protection Agency (EPA), has performed environmental investigation and assessment of the property in compliance with the Massachusetts Contingency Plan (MCP, Chapter 21E of the Massachusetts General Law). An environmental consultant paid by MHD, issued a report in June 2002 that asserted no significant risks to public welfare or the environment were identified at the Site.

The consultant proposed that DNI continue to monitor the land for five years. The cost of continued monitoring is estimated at \$17,900. The estimated cost was recognized in the 2001 financial statements. No additional liability other than monitoring costs is expected. However, in the event that an additional liability does exist, DNI is neither indemnified nor insured against such a loss. No adjustment to the carrying value of the land has been made as of June 30, 2004.