

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2016

and

UNIFORM GUIDANCE AUDIT REPORTS

YEAR ENDED JUNE 30, 2016

Smith  Sullivan
& Brown PC

CERTIFIED PUBLIC ACCOUNTANTS

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DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.
REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Dudley Street Neighborhood Initiative, Inc.
Roxbury, Massachusetts

We have audited the accompanying consolidated financial statements of Dudley Street Neighborhood Initiative, Inc. and its subsidiary, Dudley Neighbors Incorporated (Massachusetts nonprofit organizations) (collectively "the Organization"), which comprise the consolidated statements of financial position as of June 30, 2016, 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 Consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Dudley Street Neighborhood Initiative, Inc. and its subsidiary as of June 30, 2016 and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Dudley Street Neighborhood Initiative, Inc.
Page Two

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. 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 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 February 25, 2019 on our consideration of Dudley Street Neighborhood Initiative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dudley Street Neighborhood Initiative, Inc.'s internal control over financial reporting and compliance.

Emphasis of a Matter

As discussed in Note 10 to the consolidated financial statements, the Organization has restated its opening net assets as of July 1, 2015. Our opinion is not modified with respect to this matter.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
February 25, 2019

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2016

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 103,675
Cash Restricted for Collateral	25,012
Grants and Contributions Receivable	252,000
Accounts Receivable, Program Services	95,346
Accounts Receivable, Program Services - Unbilled	39,635
Accounts Receivable (Net of Allowance for Doubtful Accounts)	123,427
Prepaid Expenses and Other Assets	3,347
Deferred Interest and Rents	486,829
Deferred Lease Fee	80,000
Total Current Assets	<u>1,209,271</u>

NET PROPERTY AND EQUIPMENT

13,419,972

OTHER ASSETS:

Grants and Contributions Receivable, Non-Current	75,000
Home Owner Assistance Loans Receivable	5,000
Loan Receivable	67,000
Interest Receivable	292,157
Total Other Assets	<u>439,157</u>

TOTAL ASSETS

\$ 15,068,400

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Loans Payable	\$ 150,000
Capital Lease Obligation	8,510
Accounts Payable and Accrued Expenses	167,964
Subgrants Payable	143,777
Accrued Payable and Related Costs	131,129
Total Current Liabilities	<u>601,380</u>

LONG-TERM LIABILITIES:

Capital Lease Obligation, Net of Current Portion	<u>11,366</u>
Total Long-Term Liabilities	<u>11,366</u>

TOTAL LIABILITIES

612,746

NET ASSETS:

Unrestricted Net Assets	13,973,654
Temporarily Restricted Net Assets	482,000
Total Net Assets	<u>14,455,654</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 15,068,400

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>CONSOLIDATED TOTAL</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>			
<i>Program Services:</i>			
U.S. Department of Education, Boston Promise Grant	\$ 1,001,931	\$ -	\$ 1,001,931
Rental Income and Real Estate Tax Reimbursement	293,874	-	293,874
<i>Support and Revenues:</i>			
Gifts, Grants and Contributions	217,393	1,926,472	2,143,865
Program Service Revenue	40,139	-	40,139
Donated Services	209,604	-	209,604
<i>Other Revenues:</i>			
Interest Income	85,885	-	85,885
Miscellaneous Income	423	-	423
Total Support and Revenues	<u>1,849,249</u>	<u>1,926,472</u>	<u>3,775,721</u>
<i>Reclassification of Net Assets:</i>			
Net Assets Released from Restrictions	<u>2,321,203</u>	<u>(2,321,203)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>4,170,452</u>	<u>(394,731)</u>	<u>3,775,721</u>
<u>FUNCTIONAL EXPENSES:</u>			
Program Services	3,442,694	-	3,442,694
Administrative	545,463	-	545,463
Fund Raising	145,002	-	145,002
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>4,133,159</u>	<u>-</u>	<u>4,133,159</u>
<u>CHANGE IN NET ASSETS</u>	<u>37,293</u>	<u>(394,731)</u>	<u>(357,438)</u>
<u>NET ASSETS - BEGINNING OF YEAR AS RESTATED</u> <i>(Note 10)</i>	<u>13,936,361</u>	<u>876,731</u>	<u>14,813,092</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 13,973,654</u>	<u>\$ 482,000</u>	<u>\$ 14,455,654</u>

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>CONSOLIDATED</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries and Wages	\$ 1,297,196	\$ 277,915	\$ 80,269	\$ 1,655,380
Payroll Taxes	114,259	24,903	7,324	146,486
Fringe Benefits	208,213	45,380	13,347	266,940
Grants/Subawards	895,693	-	-	895,693
Consultants/Professional Fees	315,091	106,341	31,977	453,409
Property Management	24,591	-	-	24,591
Conferences and Meetings	14,904	1,401	95	16,400
Program/Project cost	187,363	197	-	187,560
Special Events and Projects	8,485	-	-	8,485
Real Estate Taxes	204,008	-	-	204,008
Occupancy	56,350	12,281	3,612	72,243
Utilities	4,147	461	-	4,608
Insurance	3,381	376	-	3,757
Repairs and Maintenance	5,970	1,301	383	7,654
Supplies and Equipment	1,257	140	-	1,397
In-Kind Expenses	6,490	-	-	6,490
Office Supplies and Expenses	25,975	5,661	1,665	33,301
Printing and Postage	5,518	2,131	2,610	10,259
Advertising	3,186	300	1,299	4,785
Professional Insurance	4,707	3,539	302	8,548
Staff Travel	10,283	5,166	646	16,095
Dues, Fees and Subscriptions	4,166	32,177	457	36,800
Intetest Expense	-	2,343	-	2,343
Depreciation Expense	36,589	3,156	928	40,673
Bad Debt Expense	-	13,533	-	13,533
Miscellaneous Expense	4,872	6,761	88	11,721
Total Functional Expenses	<u>\$ 3,442,694</u>	<u>\$ 545,463</u>	<u>\$ 145,002</u>	<u>\$ 4,133,159</u>

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (357,438)
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>	
Depreciation and Amortization Expense	40,673
Bad Debt Expense	13,533
Non-Cash Grants	12,500
<i>(Increase) Decrease in Current Assets:</i>	
Grants and Contributions Receivable	287,772
Accounts Receivable, Program Services	(44,901)
Accounts Receivable, Program Services - Unbilled	(39,635)
Accounts Receivable Other	(26,975)
Prepaid Expenses	(3,024)
Deferred Interest and Rents	(80,712)
<i>Increase (Decrease) in Current Liabilities:</i>	
Accounts Payable and Accrued Expenses	56,355
Subgrants Payable	1,575
Accrued Payroll and Related Costs	51,073
<i>(Increase) Decrease in Non-Current Assets:</i>	
Grants and Contributions Receivable	(75,000)
Home Owner Assistance Loans Receivable	7,500
Interest Receivable	(25,524)
Net Adjustment	<u>175,210</u>

NET CASH USED BY OPERATING ACTIVITIES

(182,228)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Line-of-Credit	150,000
Principal Payments on Capital Lease Obligations	(8,800)
Net Cash Flows From Financing Activities	<u>141,200</u>

NET DECREASE IN CASH BALANCES

(41,028)

CASH BALANCES - BEGINNING OF YEAR

169,715

CASH BALANCES - END OF YEAR

\$ 128,687

Supplemental Disclosures :

Interest Paid \$ 2,343

Cash Balances :

Cash \$ 103,675
Cash Restricted for Collateral 25,012
\$ 128,687

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 ORGANIZATION AND PURPOSE

Dudley Street Neighborhood Initiative:

Dudley Street Neighborhood Initiative, Inc. (“DSNI” or the “Organization”) was formed in 1981 to improve housing and economic opportunities for low-income and at-risk individuals and families. Its current mission is to promote economic resilience and stable homes by developing and preserving high quality affordable and supportive housing, with an emphasis on under-served populations. DSNI qualifies as a public charity under Section 509(a)(1) of the Internal Revenue Code. Dudley Street Neighborhood Initiative, Inc. has been classified as an organization which is not a private foundation under Section 509(a); accordingly, contributions made to Dudley Street Neighborhood Initiative qualify for the maximum charitable deduction for federal income tax purposes.

Dudley Neighbors Incorporated:

Dudley Neighbors Incorporated (“DNI” or the “Organization”), located in Roxbury, Massachusetts, is a community land trust and nonprofit urban revitalization corporation organized under the Commonwealth of Massachusetts General Laws Chapter 121A. DNI was organized to ensure that 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 it eminent domain authority to acquire privately owned vacant land in the Dudley Triangle.

DNI was organized by DSNI 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 and DSNI has the ability to require that some of the voting members come from its board. As of June 30, 2016, three of DNI’s voting board members also served on the Board of Directors of DSNI.

DNI Subsidiaries:

Dudley Neighbors Incorporated was the sole corporate member of the following disregarded LLC’s under the Section 301.7701-3(b)(1)(ii) of the United States Treasury Regulation and applicable Massachusetts law:

- DNI Woodward Park Homes LLC
- DNI Woodward Park Homes II South LLC
- DNI Woodward Park Homes II North LLC
- DNI Woodsville Julian Homes LLC
- DNI Winthrop Estates LLC

The above-mentioned entities had been dissolved by the Secretary of the Commonwealth of Massachusetts on April 19, 2011.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 1 *(Continued)*

On June 30, 2016, each of the above entities granted certain parcels of real estate property that were previously owned by DNI to Dudley Neighbors Holding LLC for a \$10 consideration. Dudley Neighbors Holding LLC (DNH) is a Massachusetts corporation organized on December 23, 2015 as a disregarded entity under Section 301.7701-3(b)(1)(ii) of the United States Treasury Regulation and applicable Massachusetts law. DNH was organized to acquire, develop, construct, rehabilitate, improve, maintain, finance, manage, operate, lease, sell, convey, assign mortgages and otherwise deal with real estate, whether directly or indirectly, through one or more business trusts, partnerships, limited liability companies or other entities, and to carry on any related or unrelated lawful business, trade, purpose or activity. DNI is the sole corporate member of DNH.

Dudley Investments for Neighborhood Economics, Inc. (“DINE”):

DINE is a Massachusetts nonprofit corporation seeking tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. DINE was organized to own and operate an urban greenhouse facility located in Roxbury, Massachusetts. DINE has had no financial activity since it was organized in 1999. DNI is the sole member of DINE.

Dudley Neighbors Two, Inc. (“DNI 2”):

DNI 2, a Massachusetts nonprofit corporation, was organized in 2006 to hold title to a parcel of real estate named Dudley Village North located in Roxbury, Massachusetts, which was previously owned by DNI. DNI is the sole member of DNI 2. Funding for DNI 2’s activity is provided by ground rents and property tax recoveries.

Dudley Neighbors Three, Inc. (“DNI 3”):

DNI 3, a Massachusetts nonprofit corporation, was organized in 2006 to hold title to a parcel of real estate named Dudley Village South, located in Roxbury, Massachusetts, which was previously owned by DNI. DNI is the sole member of DNI 3. Funding for DNI 3’s activity is provided by ground rents and property tax recoveries.

DNI Brookford Dalin Dean Street Homes LLC (“LLC 6”):

DNI Brookford Dalin Dean Street Homes LLC is a Massachusetts Limited Liability Company organized in 2008 as a disregarded entity as allowed by the United States Treasury and applicable Massachusetts law. DNI Brookford Dalin Dean Street Homes LLC was organized to hold title to certain parcels of real property situated on Brookford Street, Dalin Place, Dean Street, Julian Street, Dacia Street, Ingleside Street, Adrian Street and Victor Street in the Dorchester District of Boston, Massachusetts, which was previously owned by DNI. DNI is the sole member of DNI Brookford Dalin Dean Street Homes LLC.

DNI 4, Inc.:

DNI 4 Inc., a Massachusetts nonprofit corporation, was organized to perform the functions of, and to carry out the purposes of, Dudley Street Neighborhood Initiative, Inc., and its affiliated entities. DNI 4, Inc. owns properties that are held for farming and gardening purposes. DNI is the sole member of DNI 4, Inc.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 1 *(Continued)*

DNI 5, Inc.:

DNI 5, Inc., a Massachusetts nonprofit corporation, was organized in 2013 to perform the functions of, and to carry out the purposes of, Dudley Street Neighborhood Initiative, Inc., and its affiliated entities. DNI 5, Inc. owns properties that are held for commercial use. DNI is the sole member of DNI 5, Inc.

DNI North Avenue LLC:

DNI North Avenue LLC, a single member LLC, was created to hold title to land under a single family home. DNI is the sole member of DNI North Avenue LLC.

NOTE 2 PROGRAM SERVICES

Dudley Street Neighborhood Initiative:

Dudley Street Neighborhood Initiative, Inc.'s major program services consist of the following:

- *Economic Power* - Includes all aspects of land use, physical development, affordable housing, and commercial and economic development.
- *Resident Leadership* - Includes the Resident Development Institute, the community process and comprehensive planning.
- *Youth Opportunities and Development* - Engages young people in the comprehensive planning process.

Each program depends on organizing to allow residents to participate in decision making, attract investments that facilitate development without displacement, and improve the quality of life for everyone involved.

Dudley Neighbors Incorporated:

Dudley Neighbors Incorporated is a Community Land Trust created by the Dudley Street Neighborhood Initiative to implement and develop DSNI's comprehensive master plan that was drafted by residents to guide the revitalization of the neighborhood.

In the late 1980's, through a comprehensive organizing and planning initiative, Dudley residents were able to establish community control over a critical mass of the 1,300 parcels of abandoned land that had come to characterize the neighborhood. As part of this effort, the City of Boston adopted the community's comprehensive development plan and granted the power of eminent domain over much of the privately-owned vacant land in the 62-acre area known as the "Dudley Triangle." The DNI Community Land Trust was created to take ownership of that land and realize a vision of development without displacement.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 2 *(Continued)*

Twenty-five years later, more than 30 acres of formerly vacant, blighted land in the Dudley Triangle are now under neighborhood control through Dudley Neighbors Incorporated. This land has been transformed into 225 new affordable homes, a 10,000 square foot community greenhouse, urban farm, a playground, gardens, and other amenities of a thriving urban village. Dudley Neighbors Incorporated is recognized as one of the nation's most successful urban community land trusts and serves as a model for other communities organizing to promote development without displacement and long-term control of the land

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 and improvement, DNI enters into a 99-year ground lease with the homeowner or project owner in the case of a cooperative development.

DNI's operations are funded through minimal lease fees from leaseholders and contributions from the general public.

To date, DNI has the following developments on its properties:

- Winthrop Estates - 36-unit homeownership development
- Stafford Heights Coops - 41-unit low-income housing cooperative development
- Brook Ave Coop - 36-unit housing cooperative development
- Woodward Park Homes - 31-unit homeownership development
- Woodville Julian Homes - 11-unit homeownership development
- Dudley Village North and South - 5 rental units and 8,000 square feet mix use development
- Brookford Dalin Dean Homes - 10-unit homeownership development
- 492 Dudley Street - Commercial building

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which affect significant elements of the Organization's consolidated financial statements are described below to enhance the usefulness of the financial statements to the reader. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates; however, adherence to generally accepted accounting principles has, in management's opinion, resulted in reliable and consistent financial reporting by the Organization.

Basis of Accounting:

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 (Continued)

Principles of Consolidation:

The accompanying consolidated financial statements incorporate the accounts of DSNI, DNI and subsidiaries. All material inter-affiliated accounts and transactions are eliminated in the consolidated financial statements.

Financial Statement Presentation:

As required by the *FASB Accounting Standards Codification*TM, the Organization reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor-imposed restrictions as indicated below.

Unrestricted Net Assets - consists of assets, public support and program revenues which are available and used for charitable activities, operations and programs. Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor. In addition, unrestricted net assets of the Organization may include funds which represent unrestricted resources designated by the Board of Directors for operating reserves or other Board designated purposes.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the donee organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests, contracts and may include investment income earned on restricted funds.

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. For the year presented, the Organization did not have any assets of this nature.

Receivables:

Grants and Contributions Receivable reflects the balance due on pledges and gift commitments that are intended to support programs, events and general operations, including time restricted gifts. *Accounts Receivable, Program Services* represents amounts which are primarily due from government funded program service contracts and subcontracts. Management considers these commitments to be fully collectible and therefore, has not established a reserve for uncollectible program service revenue, grants and contributions. If balances become uncollectible, a reserve will be recorded at that time. For the year presented, DSNI did not report any losses on unpaid program services, pledge and gift commitments.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 *(Continued)*

Accounts Receivable, Other includes amounts related to membership dues, fees, and homebuyer's assistance loans. Management provides for probable uncollectible amounts for membership dues and fees through a provision for bad debt expense and an adjustment to a valuation allowance. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management has established an allowance for doubtful accounts in the amount of \$15,658 as of and for the year ended June 30, 2016.

Accounts Receivable, Program Services - Unbilled represent eligible costs incurred on the U.S. Department of Education Boston Promise grant that had not been submitted for reimbursement as of June 30, 2016.

Accounts Receivable represents amounts due from tenants of the various ground tenant leases. Management provides for probable uncollectible amounts for tenant rents through a provision for bad debt expense and an adjustment to a valuation allowance. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management has established an allowance for doubtful accounts in the amount of \$111,452 as of June 30, 2016. There was no actual bad debt expense for the year presented.

Property, Equipment, and Depreciation:

Land and land improvements, buildings and improvements, leasehold improvements, and furniture and equipment purchases are capitalized at cost, if purchased, or if donated, at fair value on the date of receipt. Expenditures for maintenance, repairs, and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method and is charged against support and revenues over the estimated useful lives of the assets, as expressed in terms of years. DSNI has a capitalization policy of \$1,000, while DNI utilizes a capitalization threshold of \$500.

The Organization reviews their investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of the property. There were no impairment losses recognized in the year presented.

Revenue Recognition:

Government Funded Program Service Agreements - DSNI

Dudley Street Neighborhood Initiative is the recipient of various federal and local government funded service contracts. These contracts are administered on a cost reimbursement basis; accordingly, the funding sources are billed as eligible costs are incurred, and program service revenues along with the related receivables, are recorded in the period during which the costs were incurred and the services were delivered. These service contracts and federal awards are subject to an annual renewal process and future funding is not guaranteed.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 *(Continued)*

Rental Income and Real Estate Tax Reimbursement - DNI

Rental Income is derived from land and office space leases and is recognized as earned in accordance with the underlying lease. Advance receipts of rental income are deferred and classified as liabilities until earned. Real Estate Taxes are paid to the City of Boston by DNI and charged back to tenants pursuant to the terms of the underlying ground leases.

Contributions, Gifts and Grants:

As required by the *FASB Accounting Standards Codification*TM, contributions are required to be recorded as receivables and revenues and the Organizations are required to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Occasionally, the Dudley Street Neighborhood Initiative receives donations of stocks, which are recorded as contribution revenue when received.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Contributions of assets other than cash are reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material. Multi-year commitments are recorded during the year of the initial pledge. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until restriction conditions are satisfied, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Goods and Services:

The Organization maintains a policy to record certain in-kind transactions as required by the *FASB Accounting Standards Codification*TM. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received and are recognized as revenue and expense on the Consolidated Statement of Activities and the Consolidated Statement of Functional Expenses. During FY 2016, DNI received \$209,604 in pro-bono legal services in support of its community development program and general corporate matters.

Fiscal Sponsorship:

During FY 2016, DNI acted as a fiscal sponsor for several projects. Grants and contributions made for these projects through DNI are recognized as temporarily restricted support in the year received. Funds collected and held for distribution related to these projects are released from *Temporarily Restricted Net Assets* as eligible costs are incurred.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 3 *(Continued)*

Functional Expenses:

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using the Organization's time and space usage allocation formula. Supporting services are those related to managing the Dudley Street Neighborhood Initiative general operations and its programs on a day-to-day basis. Supporting services have been sub-classified below:

Administrative - includes all activities related to the Dudley Street Neighborhood Initiative's internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for DSNI's programs.

Tax Position:

The Organization currently evaluates all tax positions, and makes a determination regarding the likelihood of those positions being upheld under review. The primary tax positions made by the Organization are the existence of Unrelated Business Income Tax and the Organization's tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and the fact that changes may result from closing of statute of limitations on tax returns, new legislation, and clarification of existing legislation through government pronouncements, the courts, and through the examination process.

For the year presented, the Organization has not recognized any tax benefits or loss contingencies for uncertain tax positions based on these evaluations.

Recent Accounting Guidance:

In August 2016, the FASB issued ASC Update No. 2016-14, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, with the goal of improving not-for-profit financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about the function and nature of expenses, liquidity, financial performance, and cash flows. This guidance will be effective for this Organization beginning after December 15, 2017 and is not expected to have a material effect on the Organization's financial position or change in net assets.

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. In August 2015, the FASB issued ASC Update No. 2015-14, (Topic 606) *Revenue from Contracts with Customers*, which deferred the effective date of ASC Update No. 2014-09 by one year. This guidance will be effective for this Organization beginning after December 15, 2018 and is not expected to have a material effect on the Organization's financial position or change in net assets.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 4 PROPERTY AND EQUIPMENT

Property and Equipment consists of land and land improvements, lease improvements, buildings and associated improvements, furnishings, and equipment. The following is a summary of property and equipment as of June 30, 2016:

<u>Asset Category</u>	<u>Est. Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
<i>DNI:</i>				
Land	-	\$13,286,351	\$ -	\$13,286,351
Land Improvements	10	518,182	452,518	65,664
Building & Improvements	15 - 20	150,837	143,879	6,958
Furniture & Equipment	7	<u>23,076</u>	<u>23,076</u>	<u>-</u>
Total DNI		13,978,446	619,473	13,358,973
<i>DSNI:</i>				
Leasehold Improvements	11	41,562	11,224	30,338
Furniture, Fixtures, Equipment	3 - 5	<u>189,704</u>	<u>159,043</u>	<u>30,661</u>
Consolidated Total		<u>\$14,209,712</u>	<u>\$789,740</u>	<u>\$13,419,972</u>

NOTE 5 DEFERRED LEASE FEE AND RENTS

DNI is party to a ground lease with Brook Veterans Limited Partnership (“Brook Veterans”) that required an initial acquisition fee payment of \$80,000, which is categorized as *Deferred Lease Fee* on the Consolidated Statement of Financial Position as of June 30, 2016. The lease agreement allowed for the deferment of payment until May 25, 2015. Until that time, interest on the unpaid balance accrued at the rate of 7% per annum, compounded annually. After the deferral period, interest and late fees are charged pursuant to the lease agreement.

In addition, pursuant to the terms of the ground lease, Brook Veterans is required to pay annual real estate taxes assessed to DNI and monthly rents of \$1,542 beginning in May 1999, adjusted annually by the greater of 5% or the percentage change in the Consumer Price Index. A minimum annual rent payment of \$4,200, adjusted annually, as previously described, is required under the lease. The balance of the annual payments can be deferred and is payable annually from Brook Veterans’ net cash flow as defined in its Partnership Agreement. All deferred amounts are due on the earlier of the 16th anniversary of the date of the lease or the date on which Brook Veterans is no longer controlled by either of the entities controlling it at the time the lease was executed (May 25, 2015). The following schedule details the components of *Deferred Interest and Rents* as of June 30, 2016:

<u>Description</u>	<u>Amount</u>
Acquisition Fee	\$197,753
Accrued Interest	208,093
Deferred Rents	71,108
Deferred Rents – Interest	<u>9,875</u>
Deferred Rents – Late Charges	<u>\$486,829</u>
Total Deferred Interest and Rents	

As more fully explained in Note 13, subsequent to year end, DNI accepted a lump sum settlement in the amount of \$531,404 on December 31, 2018 in satisfaction of this obligation.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 6 LOAN RECEIVABLE

The Organization has a formal loan agreement with Stafford Heights Limited Partnership for a cooperative housing development built on land owned 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. *Loan Receivable* represents the remaining \$67,000 of a \$367,000 mortgage note plus total accrued interest. Interest income accrued during FY 2016 was \$26,234. Total accrued interest as of June 30, 2016 was \$292,157.

NOTE 7 DEBT

Local Enterprise Assistance Fund:

Dudley Street Neighborhood Initiative, Inc. established a line-of-credit with Local Enterprise Assistance Fund, Inc. with a borrowing limit of \$100,000. The line-of-credit is subject to a fixed interest rate of 6% per annum. As of June 30, 2016, the outstanding balance was \$100,000 (*See Note 13*).

Citizens Bank:

DSNI established a line-of-credit with Citizens Bank with a borrowing limit of \$50,000. The line-of-credit is subject to fluctuating interest rates, which was 3.45% as of June 30, 2016. DSNI is required to maintain cash reserves of \$25,000 in a restricted savings deposit account as collateral on the debt. As of June 30, 2016, the outstanding balance was \$50,000.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016, net assets were temporarily restricted for the following projects and purposes:

<u>Nature of Restriction</u>	<u>Amount</u>
Economic Opportunities for Artists	\$150,000
Fair Chance for Family Success Initiative	130,000
Capacity Building	125,000
Summer Program	40,000
Youth Program	25,000
Time Restricted	7,000
Fiscally Sponsored Projects	<u>5,000</u>
Total	<u>\$482,000</u>

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 8 *(Continued)*

For the year presented, net assets were released from restriction for the following projects and purposes:

<u>Nature of Restriction</u>	<u>Amount</u>
Arts and Culture	\$ 932,626
Community Engagement	710,323
Youth Program	190,202
Capacity Building	175,000
Economic Opportunities for Artists	95,000
Fiscally Sponsored Projects	75,000
Impact Grant	56,700
Dudley Grows Project	24,320
Development without Displacement	22,500
No Child Goes Homeless Initiative	15,000
Fair Chance for Family Success Initiative	10,000
Mentoring Program	9,732
Summer Program	<u>4,800</u>
Total	<u>\$2,321,203</u>

NOTE 9 PROPERTY TAXES

DNI, DNI 2, and DNI 3 are parties to Chapter 121A agreements with the Commonwealth of Massachusetts, which exempts real property from local taxation and subjects them to an alternative tax. This alternative tax payment is due annually by March 15. Taxes are charged as additional rent to property owners that lease land to cover the related property tax. Real estate taxes are calculated using estimated fair cash values which may vary from the final valuations.

NOTE 10 RESTATEMENT OF NET ASSETS

During FY 2017, after the U.S. Department of Education (“DOE”) investigated DSNI’s prior audit reports, a special re-audit of DSNI’s Boston Promise Initiative federal grant was allowed by the DOE. The re-audit resulted in the approval of the former auditor’s previously questioned costs totaling \$990,174. Grant reimbursements for these costs were erroneously reported as a refundable advance and removed from revenue for the fiscal years ended June 30, 2014 and 2015. The DOE approved these grant expenditures in May 2017, at which time the liability was retroactively removed and the unrestricted net assets restored.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 10 *(Continued)*

DSNI and DNI have restated their net assets in the accompanying Consolidated Statement of Activities as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Consolidated Net Assets</u>
Net Assets - July 1, 2015, as Originally Reported	\$13,047,944	\$876,731	\$13,924,675
<i>Corrections:</i>			
US DOE Grant/Refundable Advance	1,014,980	-	1,014,980
Non-Cash Grants/Contributions Receivable	(269,851)	-	(269,851)
Cash Balances	(21,282)	-	(21,282)
Payroll Liabilities	(15,013)	-	(15,013)
Reverse Riley Foundation Loan	58,114	-	58,114
Accounts Receivable Reserves	56,972	-	56,972
Accounts Payable	<u>64,497</u>	<u>-</u>	<u>64,497</u>
Net Assets - July 1, 2015, as Restated	<u>\$13,936,361</u>	<u>\$876,731</u>	<u>\$14,813,092</u>

NOTE 11 LEASE COMMITMENTS

Operating Lease:

DSNI occupies approximately 5,200 square feet of program and office space pursuant to a five-year lease that commenced on August 1, 2015. Rent is payable in monthly installments of \$6,148. Rent expense was \$72,243 for the year ended June 30, 2016.

As of June 30, 2016, the future minimum lease obligation arising from this commitment is scheduled below:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2017	\$ 73,780
June 30, 2018	73,780
June 30, 2019	73,780
June 30, 2020	73,780
June 30, 2021	<u>6,148</u>
Total	<u>\$301,268</u>

Capital Lease:

DSNI leases copier equipment under a 48-month capital lease. The lease expires September 30, 2018. Depreciation of this asset was \$6,977 for the year ended June 30, 2016 and accumulated depreciation was \$11,337 as of June 30, 2016.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 11 (Continued)

The future minimum lease obligation arising from this commitment is scheduled below:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2017	\$ 9,300
June 30, 2018	9,300
June 30, 2019	<u>2,325</u>
Total minimum lease payments	20,925
Less amount representing interest	<u>(1,549)</u>
Present value of minimum lease payments	<u>\$19,376</u>

NOTE 12 CONCENTRATIONS

Receivables:

As of June 30, 2016, the balance due on two grants accounts for 84% of total *Grants and Contributions Receivable*.

Total receivables from Stafford Heights Limited Partnership and Brooks Veterans Limited Partnership represent 56% of the Organization's total receivables as of June 30, 2016.

As of June 30, 2016, the balance due on two contracts accounts for 82% of total *Accounts Receivable, Program Services*.

Government Contracts and Awards:

Funding from the Department of Education was \$1,001,931 for the year ended June 30, 2016 and accounts for 27% of total support and revenue.

NOTE 13 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the financial statements. Therefore, Management has evaluated subsequent events through February 25, 2019, the date which the financial statements were available for issue, and noted the following events which met the disclosure criteria.

U.S. DOE Re-Audit:

As more fully explained in Note 10, in May 2017, the U.S. DOE retroactively approved previously questioned costs totaling \$990,174.

Boston Promise Initiative:

DSNI closed out its 5-year award from the Department of Education in March of 2018, which included a 3-month no-cost extension. Approximately one-third of the award was sub-granted to other nonprofit community partners.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 13 *(Continued)*

Operating Lease Agreement and Relocation:

After almost three decades at the same location, (504 Dudley Street), DSNI officially relocated its offices to share office space with its long-term partner- Project Hope. Effective January 1, 2018, the Organization signed a new, five-year lease for office space located at 550 Dudley Street. This new lease replaces the previously existing lease at 504 Dudley Street, which was due to expire June 30, 2021. DSNI and the landlord agreed mutually to end the lease, and therefore, no lease cancellation penalty was incurred. The relocation reduced operational costs for the Organization and has provided more opportunities for collaboration. DSNI initially leased a portion of the 1st and 3rd floors for a monthly rent of \$4,961. In February 2019, DSNI reduced the amount of space they were leasing on the 3rd floor and now share office space with Boston Plan for Excellence, another long-term partner of the Organization, and further decreasing occupancy costs by \$1,600 per month.

Purchase of Property:

On February 9, 2017 DNI 5, Inc. (DNI 5) entered into a purchase and sale agreement for a property located at 568-572 Columbia Road, Dorchester, Massachusetts for \$1,000,000. The purchase was executed in April 2017 and was funded by a \$100,000 grant from the City of Boston that was subsequently converted into a loan as well as a 10-year, zero interest bearing loan from the City of Boston through its Public Facilities Commission with a combined maximum obligation of \$1,429,100 and matures on April 19, 2027. The loan agreement is subject to various covenants including affordable housing restrictions that requires a third of the building to be occupied by low income occupants, a third to middle income occupants and the remainder of the space being occupied a market rate. DNI 5 expects to draw down on the remaining loan proceeds to fund the renovation of the building. DNI is the sponsor of the project and guarantees DNI 5's performance under the loan agreement. As a condition of purchasing the building, DNI 5 agreed to assume an existing facility lease as the lessor that expired in November 2017. DNI is currently working with the City of Boston and community partners to plan the future of this property in coordination with a revitalization plan for Upham's Corner.

The Boston Foundation:

DSNI was engaged by The Boston Foundation ("TBF") for a joint public art installation project in FY 2015 as part of an arts initiative called Fairmount Cultural Corridor. The funds for the project totaled \$190,000 and were remitted to DSNI who agreed to act as the fiscal agent. Despite the best efforts of DSNI and TBF, the local artist selected for the project did not complete the fabrication and installation part of the commission. As a result, TBF and DSNI agreed that the funds should be returned to TBF in FY 2018 for reprogramming. TBF re-designated the funds and allowed \$65,000 to be retained for a summer festival series sponsored by DSNI and partners. The remaining \$125,000 was transferred back to TBF for a future public art installation project in Upham's Corner that will be administered by TBF.

Financing:

In May, DSNI closed on a \$360,000 loan from Local Enterprise Assistance Fund ("LEAF") which allowed the Organization to pay numerous vendors and lenders (including repaying a \$125,000 LEAF line-of-credit), as well as refund The Boston Foundation for grant dollars that had not been used as intended. The loan shall be repaid over a ten-year term, payable monthly, and bears interest at the rate of 6.25% per annum. In addition, a property owned by DNI located at 492 Dudley Street in Dorchester, Massachusetts serves as collateral for the loan.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

NOTE 13 *(Continued)*

Brook Veterans Limited Partnership Settlement:

As detailed in Note 4, DNI was party to a deferred rent and developer fee arrangement with Brook Veterans. On December 31, 2018, DNI entered into a settlement agreement with E.A. Fish Development LLC whereby DNI received \$531,404 in full settlement of the Brook Veterans obligation.

Leadership Transitions and Strategic Planning:

In 2018, DSNI experienced a series of transitions within its leadership team. Within a relatively short span of time, the Organization's Executive Director resigned and was replaced with two successive Interim Executive Directors who have long-term experience with the Organization. During this time, the Board of Directors contracted with TSNE MissionWorks to lead the search process for a permanent Executive Director.

Due to budget reductions and anticipated cash shortfalls into the fall of 2018, DSNI's Leadership undertook severe restructuring measures in May 2018. In addition to eliminating three staff positions, the remaining seven staff members reduced their time to less than 100% of a full-time position and took two weeks of voluntary furloughs. This reduction of hours and compensation continued until February 2019.

Through a community-led process, DSNI successfully completed a strategic plan for the next 2 - 3 years that highlights the following four focus areas: Development without Displacement; Youth Voice; Neighborhood Development, and Resident Empowerment. The organization will implement the plan through a phased process and use this as an opportunity to restructure the Organization based on these areas of work.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Dudley Street Neighborhood Initiative, Inc.
2. One material weakness relating to the audit of the financial statements is reported in the *Independent Auditors' 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*.
3. No instances of noncompliance material to the consolidated financial statements of Dudley Street Neighborhood Initiative, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One material weakness relating to the audit of the major federal award program is reported in the *Independent Auditors' Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the Promise Neighborhoods Program (major federal program) for Dudley Street Neighborhood Initiative, Inc. expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 2 CFR Section 200.516 are reported in this Schedule.
7. The program tested as a major program was:
 - U.S. Department of Education, Promise Neighborhoods Program (CFDA # 84.215)
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000
9. Dudley Street Neighborhood Initiative, Inc. did not qualify as a low-risk auditee.

Findings — Financial Statement Audit

Refer to Summary of Prior Audit Findings, #2015-001

Findings and Questioned Costs — Major Federal Award Program Audit

Refer to Summary of Prior Audit Findings, #2015-005

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

Financial Statement Findings

Finding #2015-001: Material Weakness in Internal Control over Financial Reporting

Condition:

The previous auditor reported that financial statement balances were materially misstated and not detected and corrected by management in a timely manner. The cause was attributed to a transition within key financial personnel.

Recommendation:

The auditors recommended that DSNI establish procedures to ensure that its financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America.

Current Status:

For the FY 2016 reporting period, DSNI had not implemented the auditor's recommendations. However, subsequent to the reporting period, in January 2017, DSNI hired Alexander, Aronson, Finning & Co (AAFCPAs) to maintain their financial records. AAFCPA is a reputable CPA Firm experienced with nonprofit accounting and reporting requirements, including familiarity with those controls and procedures required for recipients of federal awards. The increased financial management capacity occurred in January 2017, at which time proper internal controls over financial reporting were implemented. While the finding cannot be resolved as of June 30, 2016, we can expect to report that proper internal controls over financial reporting were in place within the FY 2017 reporting period.

Major Federal Program Findings

U.S. DEPARTMENT OF EDUCATION
Promise Neighborhoods Program, Implementation Grant
CFDA# 84.215, Grant #U215N120043

Finding #2015-002: Allowable Costs/Cost Principles

Condition:

The previous auditor reported questioned costs totaling \$467,526 arising from a conclusion that DSNI had failed to support the costs charged to its federal award.

Recommendation:

The auditors recommended that DSNI establish procedures to ensure that only allowable costs are charged to its federal award.

Current Status:

The U.S. Department of Education's Post Audit Group resolved this finding in favor of DSNI (Audit Control Number 01-15-69118).

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

Finding #2015-003: Cash Management

Condition:

The previous auditor reported questioned costs totaling \$421,894 arising from a conclusion that DSNI had failed to comply with the Cash Management requirements of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*.

Recommendation:

The auditor recommended that DSNI establish procedures to ensure that reimbursements have been requested only after costs have been incurred, or the drawdown of federal cash, if necessary, is only for immediate needs and payments to subrecipients are limited to immediate cash needs.

Current Status:

The U.S. Department of Education's Post Audit Group resolved this finding based on implemented and planned corrective action (Audit Control Number 01-15-69118).

Finding #2015-004: Subrecipient Monitoring

Condition:

The previous auditor reported that DSNI had failed to comply with the Subrecipient Monitoring requirements of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*.

Recommendation:

The auditor recommended that DSNI establish procedures to ensure that its policies will provide reasonable assurance that federal award information and compliance requirements are identified and communicated to subrecipients and that subrecipients are properly monitored.

Current Status:

The U.S. Department of Education's Post Audit Group (PAG) resolved this finding based on implemented and planned corrective action (Audit Control Number 01-15-69118). The PAG report acknowledged a timing difference in the repeated findings and reporting dates, in that new monitoring processes, subrecipient agreements, and oversight procedures were implemented in July 2016, which was subsequent to the period covered by the PAG's report. In the course of the FY 2016 audit engagement, it was noted that the subrecipient monitoring policies and procedures identified in the PAG report as corrective action were properly implemented, and no repeat findings were considered necessary.

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

Finding #2015-005: Reporting

Condition:

The previous auditor reported that DSNI had failed to submit its FY 2013 and FY 2014 single audit reporting packages to the Federal Audit Clearinghouse in a timely manner. The late filings were attributed to DSNI's inability to obtain timely audits from its subsidiary, DNI, and the Organization is prohibited by U.S. GAAP from submitting a parent-only report.

Recommendation:

The auditors recommended and DSNI agreed to establish an audit timeline that would facilitate timely reporting.

Current Status:

As noted above, in January 2017, DSNI hired AAFCPAs to maintain their financial records. The timing of the re-audit of the 2013 - 2015 grant expenditures in a limited scope program specific audit as permitted by the U.S. Department of Education's Post Audit Group, was such that the re-audit of 2013 - 2015 and the ultimate resolution of the prior findings had to be completed and resolved prior to the commencement of the FY 2016 audit engagement. From January through May of 2017, DSNI was fully absorbed with the onboarding of AAFCPAs and the intensity of the re-audit of 2013 - 2015, which was ultimately completed and resolved with the PAG's report issued on May 17, 2017 (Audit Control Number 01-15-69118). The FY 2016 audit commenced immediately following the PAG resolution; however, material restatements of the prior year balances were required, as AAFCPAs reconstructed the financial records and corrected errors made in prior years. Furthermore, and perhaps even more complicated, was the fact that DSNI's subsidiary, DNI, underwent a major restructuring of its various land trust holding companies in an effort to consolidate many entities under one holding company. Consequently, the FY 2016 consolidated audit was unavoidably delayed, and not completed within the nine-month deadline. Therefore, the FY 2016 audit report cannot clear the prior finding, and it is therefore repeated.

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' 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
Dudley Street Neighborhood Initiative, Inc.
Roxbury, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Dudley Street Neighborhood Initiative, Inc. (a Massachusetts nonprofit organization) and its Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2016, 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 February 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Dudley Street Neighborhood Initiative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dudley Street Neighborhood Initiative, Inc.'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged by 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding #2015-001 that we consider to be a material weakness.

To The Board of Directors
Dudley Street Neighborhood Initiative, Inc.
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dudley Street Neighborhood Initiative, Inc.'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*.

DSNI's Response to the Findings

Dudley Street Neighborhood Initiative, Inc.'s response to the findings identified in our engagement is described in the accompanying schedule of findings and questioned costs. Dudley Street Neighborhood Initiative, Inc.'s response was not subjected to the auditing procedures applied in the engagement to audit the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is to solely 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
February 25, 2019



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Dudley Street Neighborhood Initiative, Inc.
Roxbury, Massachusetts

Report on Compliance for the Major Federal Program

We have audited Dudley Street Neighborhood Initiative, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Dudley Street Neighborhood Initiative, Inc.'s major federal program for the year ended June 30, 2016. Dudley Street Neighborhood Initiative, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Dudley Street Neighborhood Initiative, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Dudley Street Neighborhood Initiative, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination Dudley Street Neighborhood Initiative, Inc.'s compliance.

Opinion on the Major Federal Program

In our opinion, Dudley Street Neighborhood Initiative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

To the Board of Directors
Dudley Street Neighborhood Initiative, Inc.
Page Two

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding #2015-005. Our opinion on the major federal program is not modified with respect to this matter.

Dudley Street Neighborhood Initiative, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Dudley Street Neighborhood Initiative, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Dudley Street Neighborhood Initiative, Inc. 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 Dudley Street Neighborhood Initiative, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Dudley Street Neighborhood Initiative, Inc.'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 the 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as Finding #2015-005 that we consider to be a material weakness.

Dudley Street Neighborhood Initiative, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Dudley Street Neighborhood Initiative, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

This 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.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
February 25, 2019

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL C.F.D.A NUMBER</u>	<u>PASS-THROUGH GRANTOR'S ID NUMBER</u>	<u>FEDERAL EXPENDITURES</u>	<u>SUB RECIPIENTS</u>
<i>U.S. Department of Education:</i>				
<u>Direct Award - Implementation Grant</u>				
Promise Neighborhoods Program				
The Boston Promise Initiative:				
Implementation Plan for the Dudley Village Campus	84.215	U215N120043	<u>\$ 1,001,931</u>	<u>\$ 211,523</u>
<u>TOTAL FEDERAL EXPENDITURES</u>			<u>\$ 1,001,931</u>	<u>\$ 211,523</u>

DUDLEY STREET NEIGHBORHOOD INITIATIVE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2016

PROJECT DESCRIPTION

The Boston Promise Initiative: Implementation Plan for the Dudley Village Campus is a five year project funded by the U.S. Department of Education under the federal program Promise Neighborhoods Program: Implementation Grant (“The Boston Promise Initiative”). The project period is from January 1, 2013 – December 31, 2017, while this report covers the Organization’s fiscal year ended June 30, 2016. The Boston Promise Initiative is a strategy designed to create a community of opportunity in the neighborhoods of North Dorchester and Roxbury, Massachusetts, called the Dudley Village Campus. Dudley Street Neighborhood Initiative, Inc. (“DSNI” or the “Organization”) serves as the lead agency for The Boston Promise Initiative, and in that capacity, organizes community partners to support the development of strong schools, strong families and strong neighborhoods that allow every child to learn, grow and succeed. In carrying out this program objective, DSNI has partnered with local schools and other nonprofit organizations within the community, some of which are considered sub-recipients for the purpose of this report. The terms of the grant require a non-federal match of 80.81%. For the year ended June 30, 2016, the Organization was not eligible to elect to apply the 10% de minimis indirect cost rate provisions to its award.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The Organization's policy is to maintain its books and prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when a liability has been incurred. The accompanying Schedule of Expenditures of Federal Awards was prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Revenue Recognition:

Federal funds are “drawn down” to coincide with or reimburse for eligible expenditures; accordingly, such funding is recognized as unrestricted support and contract reimbursements due as eligible costs are incurred.

Schedule of Expenditures of Federal Awards:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Dudley Street Neighborhood Initiative, Inc. under the Boston Promise Initiative grant for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the activities of Dudley Street Neighborhood Initiative, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Dudley Street Neighborhood Initiative, Inc.



DUDLEY STREET NEIGHBORHOOD INITIATIVE

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<http://www.dsni.org>

Board of Directors

Residents

- Nikkia Andrade*
- Keila Barros*
- Thali Barros*
- Trayce B. Booth*
- Paul Bothwell*
- Evelyn Correa-Gonzalez*
- Fabienne Eliacin*
- Joshua Fidalgo*
- Valduvino Gonçaves*
- Bob Haas*
- Samuel Hurtado*
- Sister Margaret Leonard*
- Ester Lopes*
- Michelle Mendes*
- Royal Nuñez*
- Martin Oliver*
- Laura Papia*
- Ivelise Rivera*
- Estela Rosario*
- Shannon Simpson*
- Kaymari Tejada*

Corrective Action Plan

Dudley Street Neighborhood Initiative respectfully submits the following corrective action plan for the year ending June 30, 2016.

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS- FINANCIAL STATEMENT AUDIT

Finding #2015-001: Material Weakness in Internal Control over Financial Reporting

Recommendation: The auditors recommended that DSNI establish procedures to ensure that its financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America.

Action Taken: We concur with the recommendation and it was implemented upon hiring Alexander, Aronson, Finning & Co (AAF CPA), in January 2017, to maintain the organization’s financial records. Financials statements are now generated by AAF CPA and reviewed with organization management and the Board of Directors of on monthly basis. In addition, weekly calls are held with the Executive Director to ensure proper controls and procedures are followed.

Agencies

- Bird Street Community Center*
- Children’s Services of Roxbury*
- Dudley St Neighborhood Charter School*
- First Teacher*
- Orchard Gardens K-8 School*
- The Food Project*
- Project Hope*

FINDINGS- MAJOR FEDERAL PROGRAM FINDINGS

Finding #2015-002: Allowable Costs/Cost Principles

Recommendation: The auditors recommended that DSNI establish procedures to ensure that only allowable costs are charged to its federal award.

Action Taken: DSNI has met with representatives from the U.S. Department of Education in order to receive further clarity on allowable costs. DNI worked closely with AAF CPA to file all remaining financial statements in accordance with the allowable costs. This finding was resolved, in favor of DSNI, by the U.S. Department of Education’s Post Audit Group (Audit Control Number 01-15-69118).

Businesses

- Ideal Sub Shop*
- Suffolk Construction Company*
- Yris Beauty Salon*

Religious Institutions

- Restoration City Church*
- Saint Patrick’s Church*

CDC’s

- Dorchester Bay EDC*
- Madison Park CDC*

Interim Executive Director

- Denise Barros*

Finding #2015-003: Cash Management

Recommendation: The auditor recommended that DSNI establish procedures to ensure that reimbursements have been requested only after costs have been incurred, or the drawdown of federal cash, if necessary, is only for immediate needs and payments to subrecipients are limited to immediate cash needs.

Action Taken: DSNI established protocols for subrecipients to request payment based on costs incurred. DSNI then worked with AAFCPAs to process the drawdown for federal funds and place funds in a restricted bank account where they could be released to subrecipients based on costs incurred. This finding was resolved, based on the implemented and planned corrective action, by U.S. Department of Education's Post Audit Group (Audit Control Number 01-15-69118).

Finding #2015-004: Subrecipient Monitoring

Recommendation: The auditor recommended that DSNI establish procedures to ensure that its policies will provide reasonable assurance that federal award information and compliance requirements are identified and communicated to subrecipients and that subrecipients are properly monitored.

Action Taken: DSNI issued and signed new subrecipient agreements with all partners, as of July 2016, outlining compliance requirements for the receipt of federal funds. Current agreements are now in compliance with U.S. Department of Education's policies and procedures. Any new contracts will utilize these agreements, which must be signed immediately upon agreement of work. The U.S. Department of Education's Post Audit Group (PAG) resolved this finding based on implemented and planned corrective action (Audit Control Number 01-15-69118).

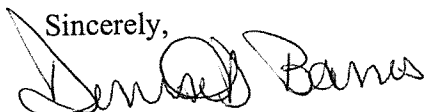
Finding #2015-005: Reporting

Recommendation: The auditors recommended and DSNI agreed to establish an audit timeline that would facilitate timely reporting.

Action Taken: As noted above, in January 2017, DSNI hired AAFCPAs to maintain our financial records and to assist with the timely filing of audits. DSNI will work with AAFCPAs to create a timeline outlining key tasks and responsible parties in order for audits to be completed in a timely fashion. In addition, the systems that have been put in place to make our daily accounting run more smoothly will assist in decreasing the preparation time needed to file.

If there are any questions regarding this plan, please contact me at 617-442-9670 x1.

Sincerely,



Denise Barros
Interim Executive Director