

CBES Development LLC

Financial Statements
And
Auditors' Report

December 31, 2014 and 2013

CBES Development LLC
December 31, 2014 and 2013

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Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

To the Members of
CBES Development LLC

We have audited the accompanying financial statements of CBES Development LLC (the Company) (a Massachusetts limited liability company) which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of CBES Development LLC as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 20 and 21 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Daniel Dennis + Company LLP

February 16, 2015

CBES Development LLC
BALANCE SHEETS
December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Investment in Real Estate:		
Land	\$ 1,593,952	\$ 1,593,952
Building and Improvements	13,376,640	13,375,653
Furniture and Equipment	104,956	98,829
Less: Accumulated Depreciation	<u>(1,117,065)</u>	<u>(762,282)</u>
Net: Investment in Rental Property	<u>13,958,483</u>	<u>14,306,152</u>
Other Assets:		
Cash	<u>46,295</u>	<u>79,056</u>
Restricted Cash:		
Operating Reserve	224,032	223,472
Tenants Security Deposits	26,274	27,166
Escrow Deposits	428,029	402,724
Replacement Reserve	<u>57,469</u>	<u>36,265</u>
Total Restricted Cash	<u>735,804</u>	<u>689,627</u>
Accounts Receivable - Tenant	1,476	4,020
Accounts Receivable - Subsidy	-	452
Other Receivables	<u>1,607</u>	<u>1,607</u>
Net Accounts Receivable	<u>3,083</u>	<u>6,079</u>
Capitalized Costs - Net	292,113	305,067
Prepaid Expenses	<u>22,113</u>	<u>22,151</u>
Total Other Assets	<u>314,226</u>	<u>327,218</u>
Total Assets	<u><u>\$ 15,057,891</u></u>	<u><u>\$ 15,408,132</u></u>

See accompanying notes to financial statements.

CBES Development LLC
BALANCE SHEETS – CONTINUED
December 31, 2014 and 2013

Liabilities:	<u>2014</u>	<u>2013</u>
Mortgage Payable	\$ 10,169,618	\$ 10,169,618
Accounts Payable - Trade	13,709	46,369
Accrued Interest Payable	376,649	295,839
Other Accrued Expenses	87,001	59,659
Due to Related Parties	179,712	179,712
Security Deposits	26,274	26,964
Prepaid Rent	<u>2,073</u>	<u>4,858</u>
Total Liabilities	<u>10,855,036</u>	<u>10,783,019</u>
 Members' Equity:		
Members' Equity	4,307,140	4,729,398
Less: Syndication Costs	<u>(104,285)</u>	<u>(104,285)</u>
Total Members' Equity	<u>4,202,855</u>	<u>4,625,113</u>
Total Liabilities and Members' Equity	<u><u>\$ 15,057,891</u></u>	<u><u>\$ 15,408,132</u></u>

See accompanying notes to financial statements.

CBES Development LLC
STATEMENTS OF OPERATIONS
 Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Rental Revenue:		
Gross Potential Rent	\$ 332,777	339,752
Gross Potential Subsidy Rent	306,887	294,423
Less: Residential Vacancy Loss	<u>(6,401)</u>	<u>(19,908)</u>
Net Rental Revenue	633,263	614,267
Other Revenue:		
Interest Income	1,612	1,534
Laundry and Vending Income	2,439	2,100
Other Income	<u>2,069</u>	<u>57,179</u>
Total Other Revenue	<u>6,120</u>	<u>60,813</u>
Total Revenue	<u>639,383</u>	<u>675,080</u>
Operating Expenses:		
Administrative	179,210	156,477
Utilities	124,080	117,716
Operating and Maintenance	211,629	221,815
Marketing and Leasing	10,151	9,095
Taxes and Insurance	<u>70,543</u>	<u>74,824</u>
Total Operating Expenses	<u>595,613</u>	<u>579,927</u>
Net Operating Income	<u>43,770</u>	<u>95,153</u>
Other Expense:		
Company Management Fee	10,927	10,609
Other Partnership Expense, Asset Management Fee	6,556	6,365
Interest - Mortgage	<u>80,809</u>	<u>78,452</u>
Total Other Expense	<u>98,292</u>	<u>95,426</u>
Net Loss Before Depreciation and Amortization	(54,522)	(273)
Depreciation Expense	354,782	352,729
Amortization	<u>12,954</u>	<u>12,954</u>
Net Loss	<u>\$ (422,258)</u>	<u>\$ (365,956)</u>

See accompanying notes to the financial statements.

CBES Development LLC
STATEMENTS OF MEMBERS' EQUITY
 Years ended December 31, 2014 and 2013

	<i>Managing Member</i>	<i>Special Member</i>	<i>Investor Members</i>	<i>Syndication Costs</i>	<i>Total</i>
Members' Equity - January 1, 2013	\$ 144,967	\$ 67	\$ 3,532,769	\$ (104,285)	\$ 3,573,518
Capital Contributions	-	-	1,417,551	-	1,417,551
Net Loss	<u>(18)</u>	<u>(18)</u>	<u>(365,920)</u>	<u>-</u>	<u>(365,956)</u>
Members' Equity - December 31, 2013	<u>144,949</u>	<u>49</u>	<u>4,584,400</u>	<u>(104,285)</u>	<u>4,625,113</u>
Net Loss	<u>(21)</u>	<u>(21)</u>	<u>(422,216)</u>	<u>-</u>	<u>(422,258)</u>
Members' Equity - December 31, 2014	<u>\$ 144,928</u>	<u>\$ 28</u>	<u>\$ 4,162,184</u>	<u>\$ (104,285)</u>	<u>\$ 4,202,855</u>
Members' Percentage of Company Losses	<u>0.005%</u>	<u>0.005%</u>	<u>99.99%</u>	<u>0%</u>	<u>100%</u>

See accompanying notes to the financial statements.

CBES Development LLC
STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013

	2014	2013
Cash Flow from Operating Activities:		
Net Loss	\$ (422,258)	(365,956)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation	354,782	352,729
Amortization	12,954	12,954
Other income - debt forgiveness	-	(49,166)
(Increase)/Decrease in Operating Assets:		
Tenant Security Deposits	892	563
Accounts Receivable - Tenant	2,544	1,011
Accounts Receivable - Subsidy	452	517
Prepaid Expenses	39	(14,982)
Escrow Deposits, net	(25,305)	(397,723)
Increase/(Decrease) in Operating Liabilities:		
Accounts Payable - Trade	(32,660)	28,083
Prepaid Rents	(2,785)	(827)
Accrued Interest Payable	80,810	71,969
Security Deposits	(690)	871
Other Accrued Expenses	27,342	8,680
Net Cash Used In Operating Activities	<u>(3,883)</u>	<u>(351,277)</u>
Cash Flow from Investing Activities:		
Payments for Buildings	(987)	(5,426)
Payments for Furniture and Equipment	(6,127)	(12,668)
Deposits to Operating Reserve	(560)	(223,472)
Deposits to Reserve for Replacement	(21,204)	(19,127)
Net Cash Used in Investing Activities	<u>(28,878)</u>	<u>(260,693)</u>
Cash Flow from Financing Activities:		
Capital Contributions Received	-	1,417,551
Payments on due to Related Party	-	(23,419)
Payments on Developer Fee	-	(838,447)
Net Cash Provided By Financing Activities	<u>-</u>	<u>555,685</u>
Net decrease in cash	(32,761)	(56,285)
Cash beginning of year	79,056	135,341
Cash end of year	<u>\$ 46,295</u>	<u>\$ 79,056</u>
<i>Supplemental Disclosure of Cash Flow Information</i>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 6,483</u>

See accompanying notes to the financial statements.

CBES Development LLC
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 1 - ORGANIZATION

CBES Development LLC (the Company) was formed as a limited liability company under the laws of the Commonwealth of Massachusetts on November 30, 2009. The Company will continue in existence until December 31, 2060, or such later date as the members agree, unless it is earlier dissolved and terminated in accordance with the provisions of the Operating Agreement. The Company was formed for the purpose of planning, constructing, and operating low income independent elderly housing called Dudley Square Supportive Housing for the Elderly (the Project). The Project consists of a seven-story building that includes 57 units of affordable rental housing and related amenities, located in Roxbury, Massachusetts.

The Project has qualified for and been allocated Low-Income Housing Tax Credits (LIHTC) under IRC Section 42 of \$823,853 annually for ten years and Tax Credit Assistance Program (TCAP) funds of \$4,929,634, which regulates the use of the Project as to occupant eligibility and gross unit rent, among other requirements. The project must meet the provisions of these requirements during each of the 15 consecutive years in order to remain qualified to receive the credits. The Company began taking the credits in 2012 and reached stabilized occupancy in October 2012. The Company will need to comply with the LIHTC requirements through 2026. In addition, the Company has executed an affordable housing restriction agreement, which requires the utilization of the Project pursuant to the term of the agreement and, except as noted in the agreement, is restricted in perpetuity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties

The Company is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the property is located or by changes in federal low-income housing subsidies or the demand for such housing.

Cash and Credit Risk

For purposes of the statement of cash flows, cash and cash equivalents includes petty cash and operating accounts, but not the Company's restricted cash accounts. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company holds no cash equivalents at December 31, 2014 and 2013. At times restricted and unrestricted cash deposits exceed the federally insured limits of the financial institution and expose the Company to credit risk. At December 31, 2014 and December 31, 2013 the Company had cash total deposits that exceeded the federally insured limits by \$546,729 and \$523,641, respectively. The Company believes it is not exposed to any significant risk of loss on these funds.

Capitalization and Depreciation

Land, building and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capitalization and Depreciation - continued

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used. For financial statement purposes, the following estimated useful lives are used:

	<u>Estimated Life</u>	<u>Method</u>
Land	-	
Building and Improvements	40	Straight-line
Furniture and Equipment	5	Straight-line

Impairment

The Company reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 2014 and 2013.

Rental Income

Rental income is recognized as rent becomes due. Rental payments received in advance are deferred until earned. All leases between the Company and tenants of the property are operating leases.

Tenant Receivables

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant account receivable. It is reasonably possible that management's estimate of the allowance will change. The Company has determined that accounts receivable are fully collectable as of December 31, 2014 and 2013.

Advertising Costs

Advertising costs are charged to operations when incurred.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Fees and Amortization

Financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Tax credit and TCAP fees are amortized using the straight-line method over fifteen years.

Income Taxes

The Company has elected to be treated a pass-through entity for income tax purposes and as such is not a taxpaying entity; thus no provision or benefit for income taxes has been included in these financial statements. All taxable income or loss passes through to, and is reportable by, the managing member and investor member on their respective income tax returns. The Company's 2011 through 2013 tax years remain subject to examination by Federal and state authorities.

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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

In June 2009, the Financial Accounting Standards Boards (FASB) issued The Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Company's accounting policies. The adoption of the Codification did not have a material impact on the Company's financial position or results of operations.

Below Market Loans

The LIHTC was created to foster a legislated public policy directive of the United States of America to create affordable low income housing. The Company was created in order to create low income housing in order to generate LIHTC. Other governmental entities having a similar policy have lent money to the Company at advantageous terms. The Company has not discounted these below market interest rate loans as they were made at arm's length and to preserve the integrity of cost eligible for the LIHTC.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 3 – INVESTMENT IN REAL ESTATE

Property and equipment consisted of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,593,952	\$ 1,593,952
Building and Improvements	13,376,640	13,375,653
Furniture and Equipment	<u>104,956</u>	<u>98,829</u>
Total	<u>\$ 15,075,548</u>	<u>\$ 15,068,434</u>

NOTE 4 – CAPITALIZED COSTS

The costs incurred to obtain financing of the project have been capitalized as of December 31, 2014 and 2013 and are being amortized as described below:

	<u>2014</u>	<u>2013</u>
Financing Costs and Tax Credit	\$ 39,523	\$ 39,523
TCAP Fees	73,944	73,944
Professional Fees	<u>219,667</u>	<u>219,667</u>
Total	333,134	333,134
Less Accumulated Amortization	<u>(41,021)</u>	<u>(28,067)</u>
Net Capitalized Costs	<u>\$ 292,113</u>	<u>\$ 305,067</u>

For the year ended December 31, 2014 and 2013, amortization expense was \$12,954. Amortization expense is expected to be \$12,954 annually over the next five years.

NOTE 5 – RESTRICTED ESCROW DEPOSITS AND RESERVES

The Operating Agreement requires the establishment of an initial lease up reserve of \$50,000, an operating reserve in the initial amount of \$223,004, a revenue deficit reserve of \$356,000 and a replacement reserve of \$100. During 2013, the Company used the investor members' contribution to fund the new reserves. According to the operating, loan and other regulatory agreements, the Company is also required to maintain and fund the escrow accounts. The following shows the activity in such accounts during 2014 and 2013:

	<u>December 31, 2013</u>	<u>Additions and Interest</u>	<u>Withdrawals and Transfers</u>	<u>December 31, 2014</u>
Real Estate Tax Escrow	\$ 31,340	\$ 60,052	\$ (35,708)	\$ 55,684
Insurance Escrow	14,515	18,021	(17,953)	14,583
Replacement Reserve	36,265	21,204	-	57,469
Operating Reserve	223,472	560	-	224,032
Special Escrow #2	<u>356,869</u>	<u>893</u>	<u>-</u>	<u>357,762</u>
Total	<u>\$ 662,461</u>	<u>\$ 100,730</u>	<u>\$ (53,661)</u>	<u>\$ 709,530</u>

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 5 – RESTRICTED ESCROW DEPOSITS AND RESERVES - CONTINUED

	<u>December 31, 2012</u>	<u>Additions and Interest</u>	<u>Withdrawals and Transfers</u>	<u>December 31, 2013</u>
Real Estate Tax Escrow	\$ 2,500	\$ 60,030	\$ (31,190)	\$ 31,340
Insurance Escrow	2,501	18,014	(6,000)	14,515
Replacement Reserve	17,138	19,127	-	36,265
Operating Reserve	-	223,508	(36)	223,472
Special Escrow #2	-	356,905	(36)	356,869
Total	<u>\$ 22,139</u>	<u>\$ 677,584</u>	<u>\$ (37,262)</u>	<u>\$ 662,461</u>

NOTE 6 - MEMBER CAPITAL CONTRIBUTIONS

The Company’s initial members were Central Boston Elder Services, Inc. (the “Sponsor”), a not for profit organization tax exempt under IRC section 501(c)(3) and CBES Management LLC, a Massachusetts Limited Liability Company of which Central Boston Elder Services, Inc. is the sole member. Central Boston Elder Services, Inc. provided \$145,000 in an initial capital contribution and held a 99.99% interest and CBES Management LLC held a .01% interest.

On August 27, 2010 an amended and restated Operating Agreement was executed and the Company added two investor members, NEF Assignment Corporation (NEFAC), an Illinois not-for-profit corporation, as nominee, and MS Shared Investment Fund I LLC (MS Shared), a Delaware limited liability company, and the original members remained. As of December 31, 2014 and 2013 the members have the following interest in the Company: CBES Management LLC as managing member .005%; Central Boston Elder Services, Inc. as special member .005%; NEFAC as investor member 84.9915%; and MS Shared as investor member 14.9985%.

The investor members agreed to an initial installment based capital contribution of \$5,601,640, based on project costs and the developer fee. The managing member and special member agreed to a capital contribution of \$145,000 and \$100, respectively, as noted in the Operating Agreement. During 2013 the investor member made its last installment of equity of \$1,417,551. The managing member, special member and investor members have contributed \$145,000, \$100 and \$5,601,640, respectively.

The total investor members’ capital contribution was subject to a capital adjuster as noted in the Operating Agreement. As of December 31, 2013, no adjustment was made to the final installment of the investor members’ equity.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 7 - FINANCING

As of December 31, 2014 and 2013 the Company had outstanding mortgage debt as follows:

	2014	2013
<i>CEDAC - Community-Based Housing Fund Program (CBH)</i>		
<p>The Company received a loan of \$508,819 from CEDAC through the CBH Program, dated August 27, 2010. The loan will mature on August 27, 2051. The loan is secured by a mortgage on the Project and accrues no interest. Payment of principal will be due in full upon maturity, however within 45 days after the end of each year the Company will pay an amount, equal to the amount that gross cash receipts exceeds 105% of the gross cash expenditures, as noted in the agreement.</p>	\$ 508,819	\$ 508,819
<i>City of Boston - Community Development Block Grant (CDBG)</i>		
<p>The Company received a loan from the City of Boston in the amount of \$1,000,000, dated August 27, 2010, under the CDBG Program. The loan will mature on August 27, 2051. The loan is secured by a mortgage on the Project and accrues no interest. Payment of principal and other payments shall be deferred until the maturity date and may be extended, if requested by the Company, up to the original term of the note in order to maintain the affordability of the property.</p>	1,000,000	1,000,000
<i>MassHousing - Affordable Housing Trust Fund (AHT)</i>		
<p>The Company received a loan from the DHCD in the amount of \$1,000,000, dated August 27, 2010, under the AHT Program, in which MassHousing will act as the administrator. The loan will mature on August 27, 2051. The loan is secured by a mortgage on the Project and accrues no interest. Payment of principal and other payments shall be deferred until the maturity date and may be extended, if requested by the Company, up to the original term of the note in order to maintain the affordability of the property.</p>	1,000,000	1,000,000

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 7 – FINANCING - CONTINUED

<i>DHCD - Tax Credit Assistance Program (TCAP)</i>	2014	2013
The Company received a loan from the DHCD in the amount of \$4,929,634, dated August 27, 2010, under the TCAP. The loan will mature on August 27, 2051. The loan is secured by a mortgage on the Project and accrues no interest. Payment of principal and other payments shall be deferred until the maturity date and may be extended, if requested by the Company, up to the original term of the note in order to maintain the affordability of the property.	\$ 4,929,634	\$ 4,929,634
 <i>City of Boston - Leading the Way</i>		
The Company received a loan from the City of Boston in the amount of \$25,000, dated August 27, 2010, under the Leading the Way Program. The loan will mature on August 27, 2051. The loan is secured by a mortgage on the Project and accrues no interest. Payment of principal and other payments shall be deferred until the maturity date and may be extended, if requested by the Company, up to the original term of the note in order to maintain the affordability of the property.	25,000	25,000
 <i>Land Loan</i>		
The Company received a loan of \$1,305,000 from Central Boston Elder Services, Inc. (CBES), the Special Member, dated November 30, 2009. The loan will mature on August 27, 2051 and is secured by a shared second mortgage on the Project. The loan accrues interest at the rate of 4.0% compounded annually. Payment of principal and interest shall be paid from cash flow as defined in the loan agreement, or at maturity. At December 31, 2014 and 2013 accrued interest on the loan was \$288,126 and \$226,852, respectively.	1,305,000	1,305,000
 <i>Neighborhood Housing Trust Loan (NHT)</i>		
The Company received a loan of \$750,000 from CBES, through the City of Boston NHT, dated August 27, 2010, and CBES then assigned the loan to the City of Boston. The loan will mature December 31, 2051 and is secured by a shared second mortgage on the Project. The loan accrues no interest and no payment of principal is anticipated until maturity. However, payment of principal may be made sooner pursuant to the terms described in the loan agreement.	750,000	750,000

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 7 – FINANCING – CONTINUED

CBES Loan

The Company received a loan of \$651,165 from CBES, dated August 27, 2010. The loan will mature on August 27, 2051 and is secured by a shared second mortgage on the Project. The loan accrues simple interest at the rate of 3.0%. Payment of principal and interest shall be paid from cash flow as noted in the agreement or at maturity. At December 31, 2014 and 2013 accrued interest on the loan was \$88,523 and \$68,987, respectively.

	<u>\$ 651,165</u>	<u>\$ 651,165</u>
TOTAL	<u>\$ 10,169,618</u>	<u>\$ 10,169,618</u>

As of December 31, 2014, future maturities of long-term debt for each of the next five years and thereafter, excluding cash flow payments, are as follows:

Year Ending	Amount
2015	\$ -
2016	\$ -
2017	\$ -
2018	\$ -
2019	\$ -
Thereafter	\$ 10,169,618

NOTE 8 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Guarantor

CBES has executed a guaranty agreement dated August 26, 2010 with the Company to guaranty full performance of the Managing Member and funding of payments under the Operating Agreement.

Purchase Option and Right of First Refusal

CBES has executed a purchase option and right of first refusal agreement dated August 26, 2010 with the Company to grant an option to purchase the Project, and has granted a right of first refusal under the terms as noted under the Operating Agreement.

Advance

CBES provided development advances on behalf of the Company in prior years. For both years ended December 31, 2014 and 2013, \$179,712 was due to CBES. During 2013, CBES forgave \$49,165 of the advances, which was reported in other income, and was paid \$23,420.

Financing

The Sponsor provided various financing to the Company, see Note 7 to the financial statements for more information.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

**NOTE 8 - TRANSACTION WITH AFFILIATES AND RELATED PARTIES –
CONTINUED**

Land Acquisition and Financing

The Company purchased from CBES the land on which the Project was built on November 30, 2009 for \$1,450,000, subject to a mortgage and security agreement between CBES and the Company. CBES provided a promissory acquisition note and a mortgage and security agreement with the Company. The note was in the amount of \$1,305,000 and dated November 30, 2009. The note bears interest at the rate of 4% per annum compounded annually. All principal and interest on this note shall be paid from available cash flow and be due and payable on the maturity date, August 27, 2051, or, if earlier, as noted in the agreement.

Developer Fees and Overhead

CBES provided development services to the Project and executed an amended Development Services Agreement on August 26, 2010 in the amount of \$1,048,060. The amounts were paid in two installments by the Company according to the provision within the development services and Operating Agreements as follows: first installment was \$209,612 and second installment was \$838,448. During 2013, the Company paid the second and final installment of \$838,448.

Company Management Fee

A management fee is due to the Managing Member based on cash flow as specified in the Operating Agreement. This fee increases annually by 3%. The fee is to compensate the Managing Member for managing the Company's operations and assets and coordinating the preparation of the required State Housing Finance Agency, federal, state, and local tax and other required filings and financial reports and along with the resident services fee. Any other fees to the Managing Member or its affiliate shall not exceed 12% of gross income as defined in the Operating Agreement. For the years ended December 31, 2014 and 2013, the Company incurred company management fee expense of \$10,927 and \$10,609, respectively. For the years ended December 31, 2014 and 2013 the Company owed management fees of \$31,836 and \$20,909, respectively.

Asset Management Fee

An asset management fee is due on an annual basis to the Asset Manager, NEF Community Investments, Inc., an affiliate of the Investor Members. This fee increases annually by 3%. The fee is for property management oversight, tax credit compliance monitoring, and related services. The Asset Manager will not incur any liability to the Managing Member or the Company as a result of the Asset Manager's performance or failure to perform its asset management services. The Asset Manager owes no duty to the Managing Member or the Company and may only be terminated by the Investor Member. As of December 31, 2014 and 2013, the Company incurred asset management fee expense of \$6,556 and \$6,365, respectively. For the years ended December 31, 2014 and 2013 the Company owed management fees of \$19,102 and \$12,545, respectively.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

**NOTE 8 - TRANSACTION WITH AFFILIATES AND RELATED PARTIES –
CONTINUED**

Resident Services Fee

The Company pays a resident services fee annually to the Managing Member, which commenced in the first year in which the credits were allocated by the Company to the Investor Member, for the reimbursement of the costs incurred in providing supportive services as described in the Resident Services Agreement dated August 27, 2010. The fee is paid as an operating expense after other operating costs and contributions to the required reserves. Any cumulative unpaid fee will be paid from cash flow and/or net cash from sales and refinancing pursuant to the terms of the Operating Agreement, and along with the company management fee and any other fees to the Managing Member or its affiliate, shall not exceed 12% of gross income as defined in the Operating Agreement. For the years ended December 31, 2014 and 2013, the Company incurred and paid resident support services expense of \$11,280 and \$12,220, respectively.

Disposition Fee

The Company shall pay the Asset Manager a disposition fee equal to \$30,000 out of the net sales proceeds at the time of closing of the sale of the Project or the Investor Members' interest in the Project. As of December 31, 2014 and 2013 no fee was incurred.

Operating Deficit Guarantee

The Managing Member shall be obligated to loan any funds needed by the Company, after all funds in the Operating Reserve Account have been used, to fund operating deficits during the Operating Deficit Guaranty Period. The Managing Member shall be required, upon the reduction of the Operating Reserve Account to zero, to promptly provide funds to the Company from time to time as needed in an amount up to \$220,000, the Operating Deficit Guaranty Amount, for Operating Deficits occurring during the Operating Deficit Guaranty Period, as defined in the Operating Agreement. Repayment of any letters of credit or other borrowings arranged by the Managing Member to meet its obligations shall be the sole obligation of the Managing Member. Funds made available by the Managing Member to fulfill its obligations shall be accounted for as unsecured loans to the Company by the Managing Member and may be reimbursed to the Managing Member without interest or out of the proceeds of refinancing or sale pursuant to the Operating Agreement. As of December 31, 2014 and 2013 there were no such loans.

NOTE 9 - COMPANY PROFIT AND LOSSES AND DISTRIBUTIONS

Generally, all profits and losses are allocated .005% to the managing member, .005% to the special member and 99.99% to the investor members. Distributable cash flow, as defined by the Operating Agreement, is generally distributed .005% to the managing member, .005% to the special member and 99.99% to the investor members. Profits or losses arising from a sale, refinancing or other disposition of all or substantially all of the Company's assets will be specially allocated based on the respective members' capital account balances, as prioritized in the Operating Agreement.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 9 - COMPANY PROFIT AND LOSSES AND DISTRIBUTIONS – CONTINUED

Additionally, the Operating Agreement provides for other instances in which a special allocation of profits and losses and distributions may be required. As of December 31, 2014 and 2013 no distributions were made to the members. Cash flow, in accordance with the Operating Agreement will be paid in the following order and priority:

- First, to investor member to extent of any amount which investor member is entitled to receive in order to satisfy any amounts owed;
- Second, to asset manager to pay any accrued and payable asset management fee;
- Third, to the operating reserve account until such time as the account is replenished up to the operating reserve target amount;
- Fourth, to the developer to pay any unpaid balance on the deferred development fee;
- Fifth, to pay any accrued and unpaid principal and interest on the loan made by the investor member;
- Sixth, to repay any accrued and unpaid principal and interest on loans made by the managing member;
- Seventh, to the managing member to repay any amount treated as loans to the Company;
- Eighth, \$10,000 (increased 3% per annum) to the managing member as company management fee on a cumulative basis;
- Ninth, to pay any due and owing interest on the CBES loan;
- Tenth, to pay any due and owing interest on the Land loan;
- Eleventh, to pay any accrued or unpaid resident services fee;
- Twelfth, to pay any outstanding principal on the CBES loan;
- Thirteenth, to pay any outstanding principal on the Land loan;
- Fourteenth, ninety-five percent of remaining funds to the payment of the CBH loan;
- Remaining amount, if any, .005% each to the managing member and special member and 99.99 to the investor member.

NOTE 10 – CONTINGENCIES

Low Income Housing Tax Credits

The Project's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of IRC Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest.

Litigation

The Company does not believe there is any litigation pending or threatened against it that, individually or in the aggregate, can reasonable be expected to have a material adverse effect on the Company.

CBES Development LLC
Notes to Financial Statements – *continued*
December 31, 2014 and 2013

NOTE 11 – MANAGEMENT FEE

The Company pays a management fee to Maloney Properties Inc. based on 7% of effective gross income. The management fee for the years ended December 31, 2014 and 2013 was \$44,613 and \$42,389, respectively.

NOTE 12– TAXABLE LOSS

A reconciliation of the financial statement net loss to taxable loss of the Company for the years ended December 31, 2014 and 2013 is as follows:

	<i>2014</i>	<i>2013</i>
Financial statement net loss	\$ (422,258)	\$ (365,956)
Depreciation and amortization expense for Income Tax over/under financial reporting	<u>1,323</u>	<u>(5,811)</u>
Taxable net loss	<u>\$ (420,935)</u>	<u>\$ (371,767)</u>

NOTE 13 – CONCENTRATIONS

Market

The Company's sole asset is the Project and its operations are concentrated in the multifamily real estate market. Additionally, the Partnership operates in a heavily regulated environment which is subject to administrative directives, rules and regulations of Federal, state and local authorities, including but not limited to the Commonwealth of Massachusetts and the City of Boston. Such administrative directives, rules and regulations are subject to change by an Act of Congress or an administrative change mandated by the Commonwealth of Massachusetts. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Income

During both years ended December 31, 2014 and 2013, the Company earned tenant based rent subsidies of 48% of net rental income.

NOTE 15 – SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events through February 16, 2015, which is the date the Company's financial statement were available to be issued. No material subsequent events have occurred since December 31, 2014 that requires recognition or disclosure in these financial statements.

CBES Development LLC
SCHEDULES OF PROJECT OPERATING EXPENSES
Years ended December 31, 2014 and 2013

<u>ADMINISTRATIVE EXPENSES</u>	<u>2014</u>	<u>2013</u>
Bad Debts	\$ -	\$ 1,203
Office Salaries	73,439	56,386
Property Management Fees	44,613	42,389
Professional Fees - Legal	6,045	3,984
Professional Fees - Accounting	10,708	9,872
Telephone Expense	12,254	11,671
Office Expense	13,865	12,969
Social Services	11,280	12,220
Other Administrative	7,006	5,783
<u>TOTAL ADMINISTRATIVE EXPENSES</u>	<u>\$ 179,210</u>	<u>\$ 156,477</u>
<u>UTILITIES</u>		
Electricity	\$ 77,261	\$ 74,630
Water And Sewer	25,135	22,318
Gas	21,684	20,768
<u>TOTAL UTILITIES EXPENSES</u>	<u>\$ 124,080</u>	<u>\$ 117,716</u>
<u>OPERATING AND MAINTENANCE EXPENSES</u>		
Janitor Salaries	\$ 22,410	\$ 28,884
Janitorial Supplies	6,777	8,321
Elevator	17,169	19,774
Exterminating	5,215	3,925
Security	67,783	57,735
Maintenance Salaries	35,877	33,787
Maintenance Supplies and Materials	13,688	10,625
Repairs	24,705	41,491
Resident & Social Services	8,674	9,168
Other Operating Maintenance	9,331	8,105
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>\$ 211,629</u>	<u>\$ 221,815</u>

CBES Development LLC
SCHEDULES OF PROJECT OPERATING EXPENSES - CONTINUED

Years ended December 31, 2014 and 2013

Rent Concession	\$ 10,151	\$ 9,004
Advertising and Lease-Up Expenses	<u>-</u>	<u>91</u>
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>\$ 10,151</u>	<u>\$ 9,095</u>
 <u>TAX AND INSURANCE EXPENSES</u>		
Payroll Taxes	\$ 9,727	\$ 8,143
Real Estate Taxes	35,698	45,762
Property and Liability Insurance	17,913	3,798
Workman's Compensation	590	3,476
Health Insurance	5,881	12,905
Other Taxes/Insurance, MA Tax	<u>734</u>	<u>740</u>
<u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u>	<u>\$ 70,543</u>	<u>\$ 74,824</u>