

**NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.
NOAH COMMUNITY DEVELOPMENT FUND, INC.
PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.
SHALOM PROPERTIES, INC.,
SIOCHAIN PROPERTIES, INC. AND
PACE BORDER, LLC
COMBINED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED June 30, 2005
(With Comparative Totals for June 30, 2004)**

**Jane S. Getter
Certified Public Accountant
331 Page Street, 2nd Floor
Stoughton, MA 02072**

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.
NOAH COMMUNITY DEVELOPMENT FUND, INC.
PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER, LLC

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YEAR ENDED JUNE 30, 2005
(With Comparative Totals for June 30, 2004)

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JANE S. GETTER

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Board of Directors
Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace
Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC
143 Border Street
East Boston, MA 02128

Independent Auditor's Report

We have audited the accompanying combined statements of financial position of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc. (a nonprofit organization), and Pace Border, LLC (a limited liability company) as of June 30, 2005 and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006 on our consideration of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Jane S. Getter,
Certified Public Accountant

Stoughton, Massachusetts
January 12, 2006

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
 NOAH COMMUNITY DEVELOPMENT FUND, INC.,
 PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

COMBINED STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED JUNE 30, 2005
 (With Comparative Totals for June 30, 2004)

ASSETS

	<u>2005</u>	<u>2004</u>
<u>Current Assets</u>		
Cash - Unrestricted	\$ 327,546	\$ 563,163
Cash - Restricted	330,213	159,715
Total cash	<u>657,759</u>	<u>722,878</u>
Accounts receivable	307,331	406,133
Prepaid expenses	50,247	36,978
Deposits and escrow accounts	239,801	450,164
Current portion of mortgage loans receivable (note 4)	37,147	27,567
Total other current assets	<u>634,526</u>	<u>920,842</u>
Total current assets	<u>1,292,285</u>	<u>1,643,720</u>
<u>Other Assets</u>		
Due from related entities	137,168	136,712
Loans receivable - noncurrent portion (note 4)	2,044,779	1,626,353
Deferred development fee from Siochain Properties Limited Partnership	55,797	55,797
Total other assets	<u>2,237,744</u>	<u>1,818,862</u>
<u>Investments (note 5)</u>	<u>71,842</u>	<u>72,229</u>
<u>Property and Equipment</u>		
Land - operations	198,946	183,750
Land - property held for rental	389,444	389,444
Buildings and improvements - property held for rental	6,241,768	6,115,728
Buildings and improvements - office condominium	2,254,815	1,353,315
Furniture and equipment	151,050	137,010
Capital leases	116,700	178,380
Accumulated depreciation and amortization	<u>(1,288,217)</u>	<u>(1,029,998)</u>
Total property and equipment	<u>8,064,506</u>	<u>7,327,629</u>
<u>Properties in Development</u>	<u>994,961</u>	<u>3,486,719</u>
 Total assets	 <u>\$ 12,661,338</u>	 <u>\$ 14,349,159</u>

See independent auditor's report.
 The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
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 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

COMBINED STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED JUNE 30, 2005
 (With Comparative Totals for June 30, 2004)

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
<u>Current Liabilities</u>		
Accounts payable	\$ 399,576	\$ 106,957
Accrued expenses and interest	105,979	92,427
Deferred revenue	45,891	
Security deposits and escrows	61,851	95,651
Due to related entities	-	349
Notes and mortgages payable - current portion	673,922	726,495
Capital leases payable - current portion (note 9)	29,175	23,340
	1,316,394	1,045,219
<u>Long-term Liabilities</u>		
Notes and mortgages payable long-term (note 6)	6,859,826	6,098,350
Notes and mortgages to be repaid from proceeds of property sale (note 6)	-	2,384,698
Deferred mortgage loans payable (note 7)	2,113,363	2,113,363
Capital leases payable - noncurrent portion (note 9)	60,225	127,432
	9,033,414	10,723,843
Total long-term liabilities	9,033,414	10,723,843
Total liabilities	\$ 10,349,808	\$ 11,769,062
<u>Net Assets</u>		
Unrestricted - after prior period adjustment	(46,143)	378,300
Temporarily restricted (notes 10 and 13) - after prior period adjustment	383,441	377,565
Permanently restricted (notes 8, 10 and 18)	1,974,232	1,824,232
	2,311,530	2,580,097
Total net assets	\$ 2,311,530	\$ 2,580,097
Total liabilities and net assets	\$ 12,661,338	\$ 14,349,159

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NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
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 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

COMBINED STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005
 (With Comparative Totals for June 30, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
<u>Support and Revenue</u>					
<u>Support</u>					
Contributions and grants (note 10)	\$ 290,200	\$ 269,022	\$ 150,000	709,222	1,283,587
Net assets released from restrictions:					
Satisfaction of program restrictions	263,146	(263,146)	-	-	-
<u>Revenue</u>					
Contracts (note 11)	374,001	-	-	374,001	278,245
Rental income	708,180	-	-	708,180	651,459
Management and development fees	213,200	-	-	213,200	61,605
Program service revenue	221,784	-	-	221,784	356,038
Interest income	93,836	-	-	93,836	64,682
<u>Other Income</u>					
Income from real estate development activities (note 12)	32,644	-	-	32,644	260,139
Total Support and Revenue	2,196,991	5,876	150,000	2,352,867	2,955,755
<u>Expenses and Losses</u>					
<u>Program Services</u>					
Housing development	112,312	-	-	112,312	143,621
Neighborhood projects	437,779	-	-	437,779	428,764
Senior home services	134,350	-	-	134,350	159,427
Housing counseling	39,916	-	-	39,916	42,089
Property Rental	1,004,787	-	-	1,004,787	752,531
Lending programs	396,831	-	-	396,831	400,592
Total program services	2,125,975	-	-	2,125,975	1,927,024
<u>Support Services</u>					
General and administrative	442,979	-	-	442,979	297,039
Fundraising	52,080	-	-	52,080	81,464
Total support services	495,059	-	-	495,059	378,503
Total expenses	2,621,034	-	-	2,621,034	2,305,527
<u>Other Losses</u>					
Loss on investments	400	-	-	400	389
Total Expenses and Losses	2,621,434	-	-	2,621,434	2,305,916
Change in net assets	(424,443)	5,876	150,000	(268,567)	649,839
Net assets at beginning of year	579,189	176,677	1,824,231	2,580,097	1,821,256
Prior period adjustment (note 14)	(200,889)	200,889	-	-	9,002
Capital contributions	-	-	-	-	100,000
Net assets at end of year	\$ (46,143)	\$ 383,442	\$ 1,974,231	\$ 2,311,530	\$ 2,580,097

See independent auditor's report.

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

NOAH - ALL COMPANIES
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 AFTER INTER-COMPANY CONSOLIDATION
 YEAR ENDED JUNE 30, 2005
 (With Comparative Totals for June 30, 2004)

	Housing Development	Neighborhood Projects	Senior Home Services	Housing Counseling	Property Rental	Lending Programs	Total Program Services	General and Administrative	Fundraising	2005 Total All Expenses	2004 Total All Expenses
Salaries	67,267	165,589	64,358	21,401	148,478	188,918	656,011	57,454	30,031	743,496	823,530
Payroll taxes	7,139	19,818	6,861	3,326	14,118	15,966	67,228	6,842	3,917	77,987	117,399
Employee benefits	3,800	12,998	15,415	7,679	31,241	22,766	93,899	9,624	2,267	105,790	93,709
Insurance - workers compensation	400	229	9,081	143	800	943	11,596	5,545	-	17,141	9,080
Total Salaries and Related Expenses	78,606	198,634	95,715	32,549	194,637	228,593	828,734	79,465	36,215	944,414	1,043,719
Appraisal fees	-	-	-	-	-	21,900	21,900	-	-	21,900	30,820
Audit	3,000	-	-	-	6,000	5,000	14,000	27,500	-	41,500	24,500
Advertising and marketing	482	829	320	-	-	2,636	4,267	1,388	1,030	6,685	10,273
Bad debt expense	-	-	-	-	3,250	-	3,250	-	-	3,250	-
Computer expense	741	1,575	700	575	780	8,369	12,740	27,770	600	41,110	35,293
Condominium fees	-	-	-	-	50,517	-	50,517	-	-	50,517	7,189
Consultants	12,769	59,377	2,053	-	1,958	13,901	90,058	158,873	4,661	253,592	50,732
Dues and subscriptions	12	-	-	-	-	50	62	7,394	-	7,456	6,039
Equipment rental	-	-	-	-	-	4,636	4,636	9,044	-	13,680	3,880
Fees and permits	95	-	-	-	925	990	2,010	1,031	-	3,041	580
Grants	-	-	-	-	-	-	-	-	-	-	20,000
Interest expense	-	-	-	-	221,131	42,166	263,297	-	-	263,297	144,198
Legal fees	200	-	-	-	1,009	6,109	7,318	4,210	-	11,528	31,023
Loan commission fees	-	-	-	-	-	47,171	47,171	-	-	47,171	43,886
Management and administrative	13,557	43,087	240	5,742	32,445	-	95,071	15,546	-	110,617	3,582
Materials	-	52	27,616	-	14,595	73	42,336	2,902	-	45,238	48,275
Meeting expense	31	1,063	-	-	-	109	1,203	5,678	-	6,881	8,561
Office expense	365	896	317	400	1,404	2,240	5,622	5,099	300	11,021	20,167
Outside contractors	323	-	-	-	10,589	2,117	13,029	9,047	-	22,076	171,361
Payroll services	-	-	-	-	-	-	-	1,762	-	1,762	2,054
Postage and shipping	224	435	200	200	175	2,826	4,060	2,715	150	6,925	9,544
Printing and copying	25	1,248	30	50	60	192	1,605	1,087	40	2,732	12,154
Program expenses	1,289	128,126	1,136	-	12,747	3,812	147,110	13,234	8,784	169,128	91,520
Insurance	-	-	3,228	-	51,076	3,622	57,926	27,919	-	85,845	69,609
Real estate taxes	-	-	-	-	79,678	-	79,678	-	-	79,678	75,440
Rent and occupancy	-	-	-	-	32,383	-	32,383	1,839	-	34,222	36,386
Repairs and maintenance	-	-	-	-	860	-	860	-	-	860	19,376
Staff development	200	1,047	-	-	-	-	2,107	25	-	2,132	12,927
Subscriptions	-	-	-	-	-	-	-	-	-	-	-
Telephone	381	1,400	1,120	400	3,723	65	7,089	7,113	300	14,502	18,404
Travel and transportation	12	10	1,675	-	1,183	16	2,896	714	-	3,610	9,188
Utilities	-	-	-	-	59,030	-	59,030	-	-	59,030	59,214
Total before depreciation and amortization	112,312	437,779	134,350	39,916	780,155	396,593	1,901,105	411,355	52,080	2,364,540	2,119,894
Depreciation and amortization	-	-	-	-	224,632	238	224,870	31,624	-	256,494	185,633
Total Expenses	112,312	437,779	134,350	39,916	1,004,787	396,831	2,125,975	442,979	52,080	2,621,034	2,305,527

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
 NOAH COMMUNITY DEVELOPMENT FUND, INC.,
 PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2005
 (With Comparative Totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ (268,567)	\$ 649,582
Adjustments to reconcile excess of support and revenue over expenses to net cash used by operating activities:		
Depreciation and amortization	256,494	185,633
Loss on investments	400	389
(Increase) decrease in:		
Accounts receivable	98,802	(10,513)
Prepaid expenses	(13,269)	(20,242)
Deposits and escrow accounts	210,363	(253,031)
Due from related entities	(133,983)	(1,301)
Increase (decrease) in:		
Accounts payable and accrued expenses	306,171	(101,238)
Security deposits and escrows payable	(33,800)	31,714
Deferred revenue	45,891	
Due to related parties	46,109	46
<u>Net Cash Provided by Operating Activities</u>	<u>514,611</u>	<u>481,039</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of furniture and equipment	(14,040)	(13,368)
Loans to homeowners	(1,122,782)	(1,598,913)
Loans repaid by homeowners	1,230,153	876,728
Additions to rental property	(100,032)	-
(Gain) loss on sale of real estate	(32,644)	(260,139)
Additions to buildings and improvements	(695,806)	(3,511,923)
Capitalized development fees eliminated in intercompany combination	(239,082)	239,082
Proceeds from sale of real estate	(7,540)	178,558
Contributions used to acquire capital assets	-	(90,000)
<u>Net Cash (Used) by Investing Activities</u>	<u>(981,773)</u>	<u>(4,179,975)</u>
<u>Cash Flows From Financing Activities</u>		
Capital contributions	207,396	100,000
Capital contributions eliminated in intercompany combination	(207,393)	217,000
Lease payments	(23,410)	(14,170)
Proceeds from mortgages and loans	1,235,697	5,166,584
Payments on mortgages and loans	(810,244)	(1,714,039)
<u>Net Cash Provided by Financing Activities</u>	<u>402,046</u>	<u>3,755,375</u>
<u>Net Increase (decrease) in Cash</u>	<u>(65,116)</u>	<u>56,439</u>
<u>Cash - Beginning</u>	<u>722,878</u>	<u>666,439</u>
<u>Cash - Ending</u>	<u>\$ 657,762</u>	<u>\$ 722,878</u>

(continued)

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 The accompanying notes are an integral part of this financial statements.

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
 NOAH COMMUNITY DEVELOPMENT FUND, INC.,
 PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2005

(With Comparative Totals for June 30, 2004)
 (continued)

Supplemental Disclosure of Cash Flows Information

Cash paid during the year for interest - expensed	236,297	144,197
Cash paid during the year for interest - capitalized	25,004	42,777
Cash paid during the year for real estate tax - expensed	79,678	75,440
Cash paid during the year for real estate tax - capitalized	8,618	5,776

Supplemental Schedule of Non Cash Investing and Financing Activities

Loan proceeds used to purchase real estate at closing	\$ 395,457	508,921
Loans repaid at closing - sale of real property	375,250	150,000
Loans proceeds used to pay off other loans	2,101,248	805,802
Contribution of real estate	-	90,000
Loans to borrowers made directly from credit lines	458,372	-
Loans repaid at closing with other loans	226,990	-

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COMBINED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(With Comparative Totals for June 30, 2004)

(1) Organization and Nature of Activities

The accompanying financial statements include the accounts of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc. and Pace Border, LLC for the year ended June 30, 2005. Neighborhood of Affordable Housing, Inc., together with NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc. and Siochain Properties, Inc. is a non-profit Community Development Corporation organized to increase housing opportunities for low and moderate income persons. Pace Border, LLC is a limited liability company controlled by Peace Properties, Inc. All corporations share common management, facilities, and Board membership. All accounts have been combined for financial statement and auditing purposes (see note 24).

The organization provides the following services for low-to-moderate income persons, primarily in East Boston, Massachusetts: neighborhood, homebuyer and homeowner services, housing development, services to senior homeowners, rental of housing, housing counseling services, loans to homeowners, economic development and community planning, and a variety of neighborhood service projects.

Funding comes from loans, grants and contracts from government and quasi-government organizations, foundations, and other private donors. The organization also receives rental income and other program service fees.

(2) Summary of Significant Accounting Policies

a. Standards of Accounting and Reporting

Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc. and Pace Border, LLC follow the standards of accounting and financial reporting as described in the American Institute of Certified Public Accountants' Audit and Accounting Guide for "Not-For-Profit Organizations".

b. Basis of Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence of nature of any donor restrictions.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor imposed stipulations.

c. Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over estimated lives of 25 to 40 years for buildings and building improvements, and 5 to 7 years for furniture and equipment. Capital leases are amortized over the estimated useful lives of the assets, and are included in depreciation and amortization expense.

Furniture and equipment costing \$1,000 or more is capitalized.

(continued)

See independent auditor's report.

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
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COMBINED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(With Comparative Totals for June 30, 2004)
(continued)

(2) Summary of Significant Accounting Policies (Continued)

d. Principles of Consolidation

The accompanying combined financial statements include the accounts of the following corporations, all of which are under common management: Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc. and Pace Border LLC. All material intercompany transactions and balances have been eliminated in combination (details in note 24).

Pace Border, LLC has been included because it is controlled by Peace Properties, Inc., the 100% owner of 143 Border Street, Inc. managing member. The interest of the minority member has been deemed to be immaterial and has not been eliminated. Capital contributions by the minority member have been used to acquire assets in Pace Border, LLC.

e. Use of Estimates

The presentation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

f. Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications directly or on the basis of time records, actual expense records, and in some cases on estimates made by the Organization's management.

g. Cash Flow Information

The organization considers all cash in banks to be cash equivalents for the purposes of the statement of cash flows. Cash held in deposit and escrow accounts is recorded as "Deposits and escrow accounts" rather than as cash.

h. Summarized Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2004, from which the summarized information derived.

i. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

See independent auditor's report.

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
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COMBINED NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005
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(3) Due from Related Entities

Neighborhood of Affordable Housing, Inc., (NOAH) is the sole owner of NOAH Trinity, Inc., a Massachusetts corporation formed to be the general partner and 1% owner of NOAH Trinity Limited Partnership, which was formed to purchase and develop the Trinity Neighborhood House as low-income housing. Siochain Properties, Inc. is the .01% general partner in Siochain Properties Limited Partnership, which was formed to develop rental properties in East Boston.

Peace Properties, Inc. is the sole owner of 143 Border Street, Inc., a Massachusetts corporation formed to be the managing partner of Pace Border LLC.

NOAH and Peace Properties, Inc. have advanced funds to these entities for cash flow purposes as follows:

	June 30, 2005	30-Jun-04
NOAH Trinity, Inc.	\$ 9,914	\$ 9,914
NOAH Trinity Limited Partnership	80,372	80,372
143 Border Street, Inc.	456	-
Siochain Properties Limited Partnership	46,426	46,426
Total	\$ 137,168	\$ 136,712

(4) Mortgage Loans Receivable

At June 30, 2005 the Organization had outstanding loans receivable from local residents for purchase and/or rehabilitation of low-to-moderate income housing, totaling \$1,777,931 at June 30, 2005 and \$1,653,920 at June 30, 2004. Interest rates range from 5% to 8.25% and maturity dates range from 10 to 30 years. Loans are secured by a second or third lien on the property purchased or improved. Maturities of loans receivable are as follows:

Year Ended June 30	Principal
2006	37,147
2007	35,390
2008	34,290
2009	30,957
2010	32,456
Subtotal	\$ 170,240
After 2010	1,607,691
Total	\$ 1,777,931
Other loans receivable	\$ 303,995

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(5) Investments

Neighborhood of Affordable Housing, Inc. owns 100% of NOAH Trinity, Inc. This corporation owns 1% as general partner in the NOAH Trinity Limited Partnership which owns and operates the Trinity Neighborhood House in East Boston, MA. This investment is reported using the equity method.

NOAH's total equity in NOAH Trinity Inc. was \$ 71,842 at June 30, 2005 and \$ 72,229 at June 30, 2004.

(6) Notes and Mortgages Payable

	Current	Long-Term	Balance June 30, 2005	Balance June 30, 2004
<u>Notes Payable by Neighborhood of Affordable Housing, Inc.</u>				
Massachusetts Housing Investment Corporation	\$ 95,000	\$ -	\$ 95,000	\$ -
CEDAC - 7% promissory note for development.	-	18,351	18,351	18,351
City of Boston Department of Neighborhood Development - (MAP/TAP), no interest, for investment in Trinity Neighborhood House, due August 6, 2007.	-	50,000	50,000	50,000
Boston Community Loan Fund, Inc.- 7% line of credit secured by assets of Neighborhood of Affordable Housing, Inc. and lien on Eutaw Meridian property.	-	175,000	175,000	-
Total notes payable by Neighborhood of Affordable Housing, Inc.	\$ 95,000	\$ 243,351	\$ 338,351	\$ 68,351
<u>Notes and Mortgages Payable by NOAH Community Development Fund, Inc.</u>				
Citizens Bank – 4.91% note due 2021 to be used to provide mortgage loans to homeowners. Secured by mortgage loans.	\$ -	\$ 55,760	\$ 55,760	\$ 112,263
Boston Federal Savings Bank – credit lines, various interest rates, to be used to provide mortgage loans to homeowners. Secured by mortgage loans.	195,590	-	195,590	306,425
Dedham Institution for Savings – 5% credit line, to be used to provide mortgage loans to homeowners. Secured by mortgage loans.	248,623	239,385	488,008	285,600
Total notes payable by NOAH Development Fund, Inc.	\$ 444,213	\$ 295,145	\$ 739,358	\$ 704,288

(continued)

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(6) Notes and Mortgages Payable (continued)

	Current	Long-Term	Balance June 30, 2005	Balance June 30, 2004
<u>Notes and Mortgages Payable by Peace Properties, Inc.</u>				
<u>Boston Community Loan Fund, Inc.</u>				
6.5% first mortgage, interest only, secured by property at 332 Meridian Street, East Boston, due November 29, 2005. \$	-	-	-	60,000
7% second mortgage secured by land at 10 Falcon Street, East Boston, due March 1, 2006. To be replaced with other financing.	-	220,050	220,050	100,000
<u>City of Boston Department of Neighborhood Development</u> MAP/TAP loan for neighborhood business development.	-	25,000	25,000	25,000
0% predevelopment loan, dated March 22, 2005, to be replaced with construction loan financing.	-	159,127	159,127	-
<u>Mass Development Finance Agency</u>	-	25,000	25,000	25,000
<u>MHIC, LLC</u>				
Adjustable rate note, interest only. Subsequently replaced by additional note due March 31, 2005. To be replaced by construction financing. Secured by land at 10 Falcon Street.	-	365,000	365,000	365,000
<u>Life Insurance Community Investment Initiative, LLC.</u>				
6.5% construction loan, secured by property at 87 Princeton Street, East Boston, MA	-	50,103	50,103	-
<u>Partners for the Common Good, Inc</u>				
5.5% loan in the maximum amount of \$250,000 for acquisition of property, secured by real property. Interest only is payable quarterly, with principal due July, 2007.	-	81,515	81,515	150,000
Total notes and mortgages payable by Peace Properties, Inc.	\$ -	\$ 925,795	\$ 925,795	\$ 725,000

(continued)

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(6) Notes and Mortgages Payable (continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
<u>Notes and Mortgages Payable by Paz Properties, Inc.</u>				
<u>Boston Community Capital</u>				
7% loan secured by property at Eutaw and Meridian Streets, East Boston, MA due March 31, 2013.	\$ 5,192	\$ 46,665	\$ 51,857	\$ 56,704
<u>City of Boston Department of Neighborhood Development (note 22)</u>				
3% second mortgage secured by property at:				
108-110 White Street, East Boston, MA	-	355,120	355,120	355,120
49-55 Putnam Street, East Boston, MA	-	472,325	472,325	472,325
449-451 Saratoga Street, East Boston, MA	-	354,811	354,811	354,811
5% second mortgage secured by property at 359-363 Meridian Street, East Boston, MA.	-	727,245	727,245	727,245
<u>Massachusetts Housing Partnership Fund</u>				
4.52% note for \$450,000; secured by multiple properties in East Boston, MA; balance due May 10, 2010.	24,272	336,404	360,676	385,823
7.67% note for \$412,000; secured by property at 115 Everett Street, East Boston, MA; balance due October 3, 2021.	<u>4,833</u>	<u>392,402</u>	<u>397,235</u>	<u>402,099</u>
Total notes and mortgages payable by Paz Properties, Inc.	<u>\$ 34,297</u>	<u>\$ 2,684,972</u>	<u>\$ 2,719,269</u>	<u>\$ 2,754,127</u>
<u>Notes and Mortgages Payable by Shalom Properties, Inc.</u>				
<u>Massachusetts Housing Partnership Fund</u>				
7.97% note secured by multiple properties in East Boston, MA; balance due October 6, 2017	\$ 18,018	\$ 629,917	\$ 647,935	\$ 665,940
<u>Dovenmuehle Mortgage</u>				
5.375% mortgage loans secured by four condominium units in Everett, MA, balance due December 1, 2033.	<u>7,394</u>	<u>476,670</u>	<u>484,064</u>	<u>491,642</u>
Total mortgages and notes payable by Shalom Properties, Inc	<u>\$ 25,412</u>	<u>\$ 1,106,587</u>	<u>\$ 1,131,999</u>	<u>\$ 1,157,582</u>

(continued)

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(6) Notes and Mortgages Payable (continued)

	Current	Long-Term	Balance June 30, 2005	Balance June 30, 2004
<u>Notes and Mortgages Payable by Pace Border LLC</u>				
<u>Massachusetts Housing Investment Corporation</u>				
6.144% first mortgage loan, interest only, secured by property at 143 Border Street, East Boston, MA, balance due June 1, 2011.	\$ -	\$ 688,522	\$ 688,522	\$ 688,522
2.667% second mortgage loan, interest only, beginning April 1, 2005. \$100,000 in principal and \$50,000 in accrued interest payable due March 1, 2014, balance due March 1, 2034. Secured by property at 143 Border Street, East Boston, MA.	-	715,454	715,454	526,975
Third mortgage loan, 2.50% initial rate payable from cash flow. Terms change at year 8 1/2. Principal and accrued interest due April, 2024.	-	200,000	200,000	200,000
<u>Local Initiatives Support Corporation</u>				
6.30% note	25,000		25,000	764,656
<u>Life Insurance Community Investment Initiative, LLC</u>				
6.5% loan	50,000	-	50,000	1,620,042
Total notes and mortgages payable by Pace Border, LLC	\$ 75,000	\$ 1,603,976	\$ 1,678,976	\$ 3,800,195
Total notes and mortgages payable - all companies	\$ 673,922	\$ 6,859,826	\$ 7,533,748	\$ 9,209,543

A note payable by Pace Border, LLC. to Peace Properties, Inc. in the amount of \$ 235,000 has been eliminated in these combined financial statements.

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(7) Deferred Mortgage Loans Payable

Shalom Properties, Inc. and Paz Properties, Inc. have received loans for the purpose of rehabilitating houses in East Boston. Interest rates range from zero to five percent. Some may be discharged in future years if certain conditions are fulfilled. The balances will be recorded as revenue in those years.

	<u>Current</u>	<u>Long-Term</u>	<u>Balance June 30, 2005</u>	<u>Balance June 30, 2004</u>
<u>City of Boston Department of Neighborhood Development (note 22)</u>				
Deferred payment note, non-interest bearing, balance due October 7, 2017	\$ -	\$ 245,339	\$ 245,339	\$ 245,339
Deferred mortgage loans secured by the following:				
124 Falcon Street, East Boston, MA	-	45,000	45,000	45,000
440 Meridian Street, East Boston, MA payments begin December, 2007.	-	164,000	164,000	164,000
<u>Massachusetts Housing Partnership Fund Board</u>				
0% Second mortgage loan secured by property at 115 Everett Street, East Boston, MA (Paz Properties, Inc.)	-	1,413,685	1,413,685	1,413,685
Deferred payment note, non-interest bearing, balance due October 6, 2017 (Shalom Properties, Inc.)	-	245,339	245,339	245,339
Total deferred mortgage loans	<u>\$ -</u>	<u>\$ 2,113,363</u>	<u>\$ 2,113,363</u>	<u>\$ 2,113,363</u>

(8) Permanently Restricted Net Assets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Permanently restricted net assets were restricted to:		
Investment in perpetuity for loans to homeowners and development of low-income housing Neighborhood Reinvestment Corporation (note 18)	<u>\$ 1,974,232</u>	<u>\$ 1,824,232</u>

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(9) Maturities of Long-Term Debt and Future Minimum Lease Payments

Maturities of notes and mortgages for each of the next five years and thereafter are as follows:

Year Ending June 30	Principal
2006	\$ 673,922
2007	1,346,330
2008	199,107
2009	71,903
2010	76,506
Subtotal	2,367,768
After 2010	5,165,980
Total	\$ 7,533,748

Future minimum lease payments of capital leases are as follows:

Year Ending June 30	Lease Payment
2006	\$ 29,175
2007	29,175
2008	29,175
2009	1,875
Leases payable	\$ 89,400

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(10) Contributions and Grants

Temporarily Restricted Grants

<u>Donor</u>	<u>Program Restrictions</u>	<u>Amount</u>
Susan A. and Donald P. Babson Charitable Trust	Chelsea Creek (youth)	\$ 5,000
The Boston Foundation	Chelsea Creek	40,000
Chelsea Human Services Collaborative	Chelsea Creek	8,512
Chelsea Human Services Collaborative	Chelsea Creek	3,915
The East Boston Foundation	East Boston Schoolyards Summer Programs	16,400
Episcopal City Mission	Community organizing	5,000
Freddie Mac	Homebuyer education	15,000
Jane's Trust	Chelsea Creek	75,000
John S. and James L. Knight Foundation	Community organizing	5,000
Miller Foundation	Chelsea Creek	9,265
Farnsworth Charitable Trust	Housing development - elderly	20,000
Neighborhood Reinvestment Corporation	Financial fitness	10,000
Neighborhood Reinvestment Corporation	Housing counseling	11,965
Neighborhood Reinvestment Corporation	Predatory lending	5,000
Katherine C Pierce Trust	Senior homeowners services	5,000
Sailors' Snug Harbor of Boston	Senior Homeowner Services	10,000
Anna B Stearns Foundation	Chelsea Creek (youth)	8,000
Waste Management of Massachusetts, Inc.	Chelsea Creek	12,500
Other temporarily restricted grants	Various	<u>3,465</u>
Temporarily restricted grants for the year ended June 30, 2005		<u>\$ 269,022</u>
Temporarily restricted grants for the year ended June 30, 2004		<u>\$ 737,205</u>

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(10) Contributions and Grants (continued)

Permanently Restricted Grants

Neighborhood Reinvestment Corporation	\$ 150,000
Permanently restricted grants for the year ended June 30, 2005:	<u>\$ 150,000</u>
Permanently restricted grants for the year ended June 30, 2004:	<u>\$ 225,000</u>

Unrestricted Grants

Citizens Bank	\$ 25,000
Neighborhood Reinvestment Corporation	95,000
Fannie Mae Foundation	55,000
United Way	102,983
Other Contributions	<u>12,217</u>
Unrestricted grants for the year ended June 30, 2005:	<u>\$ 290,200</u>
Unrestricted grants for the year ended June 30, 2004:	<u>\$ 321,382</u>

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(11) Contracts

Contracts for the year ended June 30, 2005 were as follows:

	<u>Revenue</u>	<u>Expenditures</u>
<u>Commonwealth of Massachusetts</u>		
Executive Office of Environmental Affairs, Massachusetts Environmental Trust	\$ 23,750	\$ 23,750
<u>City of Boston</u>		
Boston Housing Authority - Home Ownership Loan-to- Purchaser Program	99,257	99,257
Department of Neighborhood Development - HOME/CHDO Program	19,000	19,000
Department of Neighborhood Development for Housing Counseling	34,352	34,352
Department of Neighborhood Development for Senior Homeowner Services	165,642	165,642
<u>U.S. Environmental Protection Agency</u>		
Testing Transfer and Transformation of Brownfields in MA along Chelsea Creek	20,000	20,000
Environmental Justice Roundtable	12,000	12,000
 Total contracts for the year ended June 30, 2005	 <u>\$ 374,001</u>	 <u>\$ 374,001</u>
Total contracts for the year ended June 30, 2004	<u>\$ 278,245</u>	<u>\$ 278,245</u>

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(12) Income From Real Estate Development Activities

During the year ended June 30, 2005, Peace Properties, Inc. acquired and sold a residential property which was being foreclosed, for a net a gain of \$956. Pace Border LLC sold an office condominium at a loss. Development fees paid to Neighborhood of Affordable Housing, Inc have been eliminated in intercompany combination, resulting in a gain for purposes of this audit. Pace Border LLC retained the remaining unit, which is the office of Neighborhood of Affordable Housing, Inc. and its related entities.

Income from real estate activities was as follows:

	Year Ended 30-Jun-05	Year Ended 30-Jun-04
Sale of real estate	\$ 2,797,193	\$ 347,000
Less cost of sales	<u>(3,003,631)</u>	<u>(86,861)</u>
Gain (loss) on sales of real estate before intercompany combination	(206,438)	260,139
Cost of sales eliminated in intercompany combination	<u>239,082</u>	<u>-</u>
Gain on sale of real estate	<u>\$ 32,844</u>	<u>\$ 260,139</u>

(13) Temporarily Restricted Net Assets

Temporarily restricted net assets were as follows:

Capital account for office building	\$ -	\$ 16,677
Rental housing for the homeless	100,000	\$ 100,000
Schoolyard project	7,525	-
Chelsea Creek program	261,675	260,889
Housing development	10,000	-
Housing counseling	<u>4,241</u>	<u>-</u>
	<u>\$ 383,441</u>	<u>\$ 377,566</u>

	Year Ended 30-Jun-05	Year Ended 30-Jun-04
Restricted to:		
Program purposes	\$ 100,000	\$ 100,000
Use in future fiscal years	<u>283,441</u>	<u>277,566</u>
	<u>\$ 383,441</u>	<u>\$ 377,566</u>

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(14) Prior Period Adjustments

June 30, 2005 - Temporarily restricted net assets were mistakenly classified as unrestricted net assets. The following temporary restrictions had not been released as of June 30, 2004: \$100,889 of net assets of Neighborhood of Affordable Housing, Inc., and \$100,000 of net assets of Shalom Properties, Inc.

June 30, 2004 - Prior year expenses were overstated in the amount of \$9,002.

(15) Related Party Transactions

Neighborhood of Affordable Housing, Inc. (NOAH) is the sole owner of NOAH Trinity, Inc., a Massachusetts corporation formed to be the general partner and 1% owner of NOAH Trinity Limited Partnership, which was formed to purchase and develop the Trinity Neighborhood House as low-income housing. As detailed in note (5), NOAH has equity of \$71,842 in NOAH Trinity, Inc. and has advanced funds to both NOAH Trinity, Inc. and NOAH Trinity Limited Partnership. In addition, NOAH receives management fees from NOAH Trinity Limited Partnership in the amount of \$34,500 per year. Accounts receivable included \$27,290 due from the partnership at June 30, 2005 and \$24,415 at 2004.

Siochain Properties, Inc. is the .01% limited partner of Siochain Properties Limited Partnership, which was formed to develop rental properties in East Boston.

As detailed in note 3, Neighborhood of Affordable Housing, Inc. has advanced funds to Siochain Properties Limited Partnership. In addition, accounts receivable included \$35,069 due from the partnership at June 30, 2005 and \$35,311 at June 30, 2004.

Neighborhood of Affordable Housing, Inc. offers second mortgage loans to East Boston homeowners. As of June 30, 2005, the organization had outstanding mortgages receivable from an employee in the amount of \$ 70,444. This related party borrower met underwriting standards and income eligibility requirements. The borrower did not have a conflict of interest as defined in the organization's loan policies.

Peace Properties, Inc. is the sole owner of 143 Border Street, Inc., a Massachusetts corporation. 143 Border Street, Inc. is the managing member of Pace Border, LLC, which was formed to own commercial property at 143 Border Street, East Boston. At June 30, 2005 Pace Border, LLC owned two condominium units, one of which was sold in August, 2005. The remaining condominium unit is the office of Neighborhood of Affordable Housing, Inc. and affiliates. NOAH pays rental expenses to Pace Border, LLC. The income and expense have been eliminated in intercompany combination.

(16) Income Tax Status

Neighborhood of Affordable Housing, Inc. and Peace Properties, Inc. are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; Paz Properties, Inc., and Shalom Properties, Inc. and Siochain Properties, Inc. are exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code, and all are exempt from State income taxes. Therefore, no provision has been made for such taxes in the accompanying financial statements. Neighborhood of Affordable Housing, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc. and Siochain Properties, Inc. have been classified as "other than a private foundation" by the Internal Revenue Service and qualify for the 50% charitable contribution deduction under Section 170(b)(1)(a) of the Internal Revenue Code.

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(16) Income Tax Status (continued)

NOAH Community Development Fund, Inc. was incorporated in 2001 as a Massachusetts nonprofit corporation. As of the present date, the IRS has not approved its status as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Management believes that the exemption should be granted retroactively, or, in the alternative, that it would be appropriate to treat revenue as a nontaxable contribution to capital, so that there would be no income tax liability in any event. Therefore, no provision has been made for such taxes in the accompanying financial statements.

(17) Rental Income

Peace Properties, Inc., Paz Properties, Inc., and Shalom Properties, Inc. own rental properties which are rented to low-to-moderate income tenants. In general, leases are for twelve months. In some cases, rentals are tenancies-at-will. Rental income is received from tenants or from the Boston Housing Authority. There were no long-term rental agreements at June 30, 2005 or 2004.

(18) Schedule of Financial Position - Neighborhood Reinvestment Corporation Permanently Restricted Net Assets

	Year Ended 30-Jun-05	Year Ended 30-Jun-04
Cash in Bank (Loan Escrows)	\$ 211,649	\$ 101,089
Mortgage Loans Receivable	909,125	869,685
Buildings	853,458	853,458
Total assets	\$ 1,974,232	\$ 1,824,232
Total net assets	\$ 1,974,232	\$ 1,824,232

Buildings

<u>Company</u>	<u>Address</u>	Year Ended 30-Jun-05	Year Ended 30-Jun-04
Shalom Properties, Inc	Various (7 buildings)	\$ 100,000	\$ 100,000
Paz Properties, Inc	Various (2 Buildings)	207,108	207,108
Peace Properties, Inc	Border Street	452,000	452,000
Peace Properties, Inc	Border /Falcon Street	39,000	39,000
Peace Properties, Inc	332 Meridian St	55,350	55,350
		\$ 853,458	\$ 853,458

(19) Cash in Banks

At June 30, 2005 cash exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$427,763.

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(20) Contingent Liabilities

Paz Properties, Inc. and Shalom Properties, Inc. hold mortgages payable to the City of Boston Department of Neighborhood Development. Proceeds have been used to create rental property for low-to-moderate income tenants. Although the loan agreements specify interest accrual at stated rates, management believes that the loans will eventually be negotiated or forgiven. Therefore, the interest has not been recorded in the financial statements.

There is a reasonable possibility that this additional accrued interest could be payable at a future date. Additional accrued interest has been calculated, but not recorded, as follows as of June 30, 2005:

Paz Properties, Inc.	\$ 572,368
Shalom Properties, Inc.	132,209
Total contingent liability	<u>\$ 704,577</u>

In the previous years accrued interest was added to the loan balances in Paz Properties, Inc. Mortgages payable include \$ 72,143 which management believes will not be payable.

(21) Other Contingencies

Forgivable Loans - Loans from the City of Boston, Department of Neighborhood Development, will be forgiven once certain conditions are met. In general, properties must remain affordable housing for a specified time period.

Terms of Certain Mortgages - Some loans may be called or required to be paid if certain conditions are not met. Conditions relate to maintaining properties as low-to-moderate income housing.

(22) Conditional Grant

Jane's Trust approved a three-year grant to Neighborhood of Affordable Housing, Inc. for use in the Chelsea Creek Program, conditional on NOAH's meeting certain defined benchmarks. Of the \$185,000 grant, \$75,000 was recognized in the year ended June 30, 2005. The balance will be recognized as the conditions are met.

(23) Interest Costs Incurred

For the year ended June 30, 2005, Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc. and Pace Border, LLC incurred interest costs as follows:

Interest expense charged to operations.	<u>\$ 263,297</u>
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See independent auditor's report.

NEIGHBORHOOD OF AI
NOAH, COMMUNITY C
PEACE PROPERTIES, II
SHALOM PROPERTIES, INC., SIOCHAIN

COMBINED NOTES TO

FOR THE YEAR I
(With Comparative

(24) Combining Entries	Neighborhood of Affordable Housing, Inc.			Peace Properties, Inc.			Paz Properties, Inc.			Sha
	Before Combination	Combining Entries	After Combination	Before Combination	Combining Entries	After Combination	Before Combination	Combining Entries	After Combination	Before Combination
Assets										
Current assets and cash	801,550	(279,334)	522,216	49,744	(10,963)	38,781	144,603	-	144,603	84,832
Due from related entities	994,049	(876,117)	117,932	19,236	-	19,236	75,000	(75,000)	-	-
Loans receivable	303,995	-	303,995	235,000	(235,000)	-	-	-	-	-
Property & Equipment	118,171	-	118,171	-	-	-	3,826,709	-	3,826,709	2,030,719
Other non-current assets	56,797	-	56,797	-	-	-	-	-	-	-
Long-term investments	71,842	-	71,842	107,457	(187,457)	-	-	-	-	-
Buildings in development	-	-	-	994,961	-	994,961	-	-	-	-
Less capitalized intercompany costs	-	-	-	-	-	-	-	(243,957)	(243,957)	-
Total Assets	2,345,404	(1,155,451)	1,189,953	1,486,398	(433,420)	1,052,978	4,046,312	(318,957)	3,727,355	2,115,351
Liabilities										
Current liabilities	349,599	-	349,599	71,869	(26,976)	44,893	155,727	(90,418)	65,309	163,062
Long-term liabilities	330,876	-	330,876	925,795	-	925,795	4,098,658	-	4,098,658	1,806,265
Due to related entities	204,106	(204,106)	-	406,292	(406,292)	-	14,326	(14,326)	-	10,218
Total Liabilities	884,581	(204,106)	680,475	1,403,956	(433,268)	970,688	4,268,711	(104,744)	4,163,967	1,979,546
Net Assets										
Unrestricted net assets	1,177,382	(951,345)	226,037	(463,908)	(152)	(464,060)	(429,507)	(214,213)	(643,720)	(64,194)
Temporarily restricted net assets	283,441	-	283,441	-	-	-	-	-	-	100,000
Permanently restricted net assets	-	-	-	546,350	-	546,350	207,108	-	207,108	100,000
Total Net Assets	1,460,823	(951,345)	509,478	82,442	(152)	82,290	(222,399)	(214,213)	(436,612)	135,806
Total Liabilities and Net Assets	2,345,404	(1,155,451)	1,189,953	1,486,398	(433,420)	1,052,978	4,046,312	(318,957)	3,727,355	2,115,351
Support and Revenue										
Contributions, grants and contracts	901,258	-	901,258	-	-	-	-	-	-	-
Management fees	502,849	(320,849)	182,000	-	-	-	-	-	-	-
Development fees	31,200	-	31,200	-	-	-	-	-	-	-
Rental income	15,622	-	15,622	-	-	-	343,573	-	343,573	348,985
Development subsidies	-	-	-	-	-	-	-	-	-	-
Gain (loss) on sale of real estate	-	-	-	955	-	955	-	-	-	-
Program service income	1,305	-	1,305	-	-	-	-	-	-	-
Interest income	3,420	-	3,420	10,963	(10,963)	-	1,166	-	1,166	291
Total Support and Revenue	1,465,654	(320,849)	1,134,805	11,918	(10,963)	955	344,739	-	344,739	349,276
Expenses and Losses										
Grants	-	-	-	-	-	-	-	-	-	-
Expenses	1,597,012	(118,566)	1,478,446	3,548	-	3,548	313,805	(121,255)	192,550	343,271
Depreciation and amortization	30,689	-	30,689	-	-	-	111,028	-	111,028	56,564
Subtotal	1,627,701	(118,566)	1,509,135	3,548	-	3,548	424,833	(121,255)	303,578	399,835
Loss on investments	387	-	387	236,936	(236,936)	-	-	-	-	-
Total expenses and losses	1,628,088	(118,566)	1,509,522	240,484	(236,936)	3,548	424,833	(121,255)	303,578	399,835
Change in net assets										
Capital Contributions	(172,434)	(202,283)	(374,717)	(228,565)	225,973	(2,593)	(60,094)	121,255	41,161	(50,559)
Net assets beginning	1,633,257	(2,170,396)	(537,139)	311,008	1,726,215	2,037,223	(142,305)	219,009	76,704	186,365
Prior period adjustment (note 14)	-	-	-	-	-	-	-	-	-	-
	1,460,823	(2,372,679)	(911,856)	82,442	1,952,188	2,034,630	(222,399)	340,264	117,865	135,806

24a

ORDABLE HOUSING, INC.,
 VELOPMENT FUND, INC.,
 S., PAZ PROPERTIES, INC.,
 PROPERTIES, INC., AND PACE BORDER, LLC

FINANCIAL STATEMENTS

ENDED JUNE 30, 2005
 (Stats for June 30, 2004)

Pace Properties, Inc.		NOAH Community Development Fund, Inc.			Siachain Properties Inc.			Pace Border LLC			All Corporations Combined 2005	All Corporations Combined 2004
Combining Entries	After Combination	Before Combination	Combining Entries	After Combination	Before Combination	Combining Entries	After Combination	Before Combination	Combining Entries	After Combination		
-	84,632	357,758	-	357,758	-	-	-	144,295	-	144,295	1,292,285	1,643,720
-	-	102,894	(102,894)	-	-	-	-	28,324	(28,324)	-	137,168	136,712
-	-	1,740,784	-	1,740,784	-	-	-	-	-	-	2,044,779	1,626,353
-	2,030,719	1,061	-	1,061	-	-	-	2,385,858	-	2,385,858	8,362,518	7,708,999
-	-	-	-	-	-	-	-	-	-	-	55,797	55,797
-	-	-	-	-	-	-	-	-	-	-	71,842	72,229
-	-	-	-	-	-	-	-	-	-	-	994,961	3,642,122
(54,055)	(54,055)	-	-	-	-	-	-	-	-	-	(298,012)	(536,773)
(54,055)	2,061,296	2,202,497	(102,894)	2,099,603	-	-	-	2,558,477	(28,324.00)	2,530,153	12,661,338	14,349,159
(85,133)	77,929	517,702	(6,432)	511,270	-	-	-	278,056	(37,963)	240,093	1,289,093	3,429,568
-	1,806,265	295,145	-	295,145	-	-	-	1,838,976	(235,000)	1,603,976	9,060,715	8,339,145
(10,218)	-	259,370	(259,370)	-	397	(397)	-	231,062	(231,062)	-	-	349
(95,351)	1,884,194	1,072,217	(265,802)	806,415	397	(397)	-	2,348,094	(504,025)	1,844,069	10,349,808	11,769,062
41,296	(22,898)	9,268	163,146	172,414	(397)	397	-	210,383	475,701	686,084	(46,143)	579,189
-	100,000	-	-	-	-	-	-	-	-	-	383,441	176,677
-	100,000	1,120,774	-	1,120,774	-	-	-	-	-	-	1,974,232	1,824,231
41,296	177,102	1,130,042	163,146	1,293,188	(397)	397	-	210,383	475,701	686,084	2,311,530	2,580,097
(54,055)	2,061,296	2,202,259	(102,656)	2,099,603	-	-	-	2,558,477	(28,324)	2,530,153	12,661,338	14,349,159
-	-	181,965	-	181,965	-	-	-	-	-	-	1,083,223	1,561,832
-	-	-	-	-	-	-	-	-	-	-	182,000	61,605
-	-	-	-	-	-	-	-	-	-	-	31,200	-
-	348,985	-	-	-	-	-	-	100,807	(100,807)	-	708,180	651,459
-	-	-	-	-	-	-	-	(207,393)	239,082	31,689	32,644	260,139
-	-	220,479	-	220,479	-	-	-	-	-	-	221,784	356,038
-	291	88,945	-	88,945	-	-	-	14	-	14	93,836	64,682
-	-	-	-	-	-	-	-	-	-	-	-	-
-	349,276	491,389	-	491,389	-	-	-	(106,572)	138,275	31,703	2,352,867	2,955,755
-	-	-	-	-	-	-	-	-	-	-	-	205,057
(127,700)	215,571	387,558	(54,135)	333,423	35	-	35	151,930	(10,963)	140,967	2,364,540	1,914,837
-	56,564	238	-	238	-	-	-	57,975	-	57,975	256,494	185,633
(127,700)	272,135	387,796	(54,135)	333,661	35	-	35	209,905	(10,963)	198,942	2,621,034	2,305,527
-	-	-	-	-	13	-	13	-	-	-	400	389
(127,700)	272,135	387,796	(54,135)	333,661	48	-	48	209,905	(10,963)	198,942	2,621,434	2,305,916
127,700	77,141	103,593	54,135	157,728	(48)	-	(48)	(316,477)	149,238	(167,239)	(268,567)	649,839
-	-	-	-	-	-	-	-	207,393	(207,393)	-	-	100,000
329,386	515,751	1,026,449	(630,259)	396,190	(349)	-	(349)	319,467	(227,750)	91,717	2,580,097	1,821,256
-	-	-	-	-	-	-	-	-	-	-	-	9,002
457,086	592,892	1,130,042	(576,124)	553,918	(397)	-	(397)	210,383	(285,905)	(75,522)	2,311,530	2,580,097

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
 NOAH COMMUNITY DEVELOPMENT FUND, INC.,
 PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program title	Federal CFDA Number	Pass-Through Entity Identifying number	Federal Expenditures	Other Outstanding Balances
<u>U.S. Department of Housing and Urban Development</u>				
<u>Pass-Through from Neighborhood Reinvestment Corp.</u>				
Housing Counseling Assistance Program	14.169		\$ 12,724	
<u>Pass-Through from City of Boston</u>				
<u>Department of Neighborhood Development</u>				
<u>Community Development Block Grants</u>				
Housing Counseling	14.218		34,352	
Senior Home Services	14.218		165,642	
Total Community Development Block Grants			199,994	
<u>Boston Housing Authority</u>				
Demolition and Revitalization of Severely Distressed Public Housing (Hope VI)	14.866		99,257 *	
<u>Pass-Through from Neighborhood Development Support Collaborative - HOME/CHDO</u>				
Home Investment Partnership Program	14.239		19,000	
<u>Neighborhood Reinvestment Corporation</u>	21.000	Enabling legislation Public Law 95-957	245,000 *	
<u>U.S. Environmental Protection Agency</u>				
<u>Pass-Through from Chelsea</u>				
<u>Human Services Collaborative, Inc.</u>				
Surveys, Studies, Investigations and Special Purpose Grants	66.606		3,519	
Surveys, Studies, Investigations and Special Purpose Grants	66.606		8,512	
Total Chelsea Human Services Collaborative, Inc.			12,031	
<u>Direct Contracts</u>				
Environmental Justice Small Grant Program	66.604		20,000	
Environmental Justice Small Grant Program	66.604		12,000	
Total U.S Environmental Protection Agency Direct			44,031	
Total federal expenditures			\$ 620,006	

*Major Program

The accompanying notes are an integral part of this schedule.

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
 NOAH COMMUNITY DEVELOPMENT FUND, INC.,
 PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
 SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC. AND PACE BORDER LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2005
 (Continued)

Additional Balances of Federal Loans at June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program title	Federal CFDA Number	Pass-Through Entity Identifying number	Federal Expenditures	Other Outstanding Balances
<u>Pass-Through from City of Boston</u>				
<u>Department of Neighborhood Development</u>				
Mortgages funded by U.S. Department of Housing and Urban Development:				
Community Development Block Grants	14.218			\$ 1,119,423
Rental Supplements	14.149			271,834
HOME Investment Partnership Program	14.239			<u>1,179,614</u>
Total City of Boston mortgages				<u>\$ 2,570,871</u>

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc. and Siochain Properties, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations.

See independent auditor's report.

The accompanying notes are an integral part of this schedule.



JANE S. GETTER

CERTIFIED PUBLIC ACCOUNTANT

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Board of Directors

Neighborhood Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC
143 Border Street
East Boston, MA 02128

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

We have audited the combined financial statements of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC as of and for the year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties Inc. and Pace Border, LLC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties Inc. and Pace Border, LLC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01 through 2005-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-01 to be a material weakness.

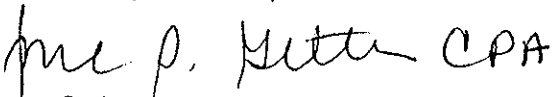
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Property Inc. and Pace Border, LLC's financial statements are free of 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 and other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we have reported to management of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Property Inc. and Pace Border, LLC in a separate letter dated January 12, 2006.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Jane S. Getter
Certified Public Accountant

Woburn, Massachusetts
January 12, 2006



JANE S. GETTER

CERTIFIED PUBLIC ACCOUNTANT

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Board of Directors

Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC
143 Border Street
East Boston, MA 02128

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc. and Pace Border, LLC with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties Inc. and Pace Border, LLC's management. Our responsibility is to express an opinion on Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties Inc. and Pace Border, LLC's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC'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. Our audit does not provide a legal determination of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC's compliance with those requirements.

In our opinion, Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Jane S. Getter
Certified Public Accountant

Stoughton, Massachusetts
January 12, 2006

NEIGHBORHOOD OF AFFORDABLE HOUSING, INC.,
NOAH COMMUNITY DEVELOPMENT FUND, INC.,
PEACE PROPERTIES, INC., PAZ PROPERTIES, INC.,
SHALOM PROPERTIES, INC., SIOCHAIN PROPERTIES, INC., AND PACE BORDER, LLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

1. The auditor's report expresses an unqualified opinion on the combined financial statements of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC
2. Three reportable conditions, noted as items 2005-01 through 2005-03, relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an *Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award program for Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) if OMB Circular A-133 are reported in this schedule.
7. The program tested as major programs were:

Demolition and Revitalization of Severely Distressed Public Housing (Hope VI)	14.866
Neighborhood Reinvestment Corporation	Enabling legislation Public Law 95-957 Dept. of the Treasury.
8. The threshold for distinguishing between Type A and B programs was \$ 500,000.
9. Neighborhood of Affordable Housing, Inc., NOAH Community Development Fund, Inc., Peace Properties, Inc., Paz Properties, Inc., Shalom Properties, Inc., Siochain Properties, Inc., and Pace Border, LLC was determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2005-01 - Recording of Transactions

REPORTABLE CONDITIONS

Condition

Program activities were not communicated by program staff to the accounting staff during the year, and therefore were not recorded.

Criteria

Internal accounting controls and procedures should exist to provide a system which will specify job duties and responsibilities and supervisory responsibility, and will identify all transactions as soon as they occur so that they are accurately recorded in a timely manner.

Effect

The auditor identified at least three significant transactions that were known to program staff, but were not recorded in the accounting records as of the end of the year.

Cause

The organization experienced unusual turnover in its finance and other personnel. Neither an accounting manual nor written internal control procedures were available for use by new staff members. The importance of clear communication between program staff and accounting staff was not emphasized by management.

Recommendation

The organization should develop and maintain a system of management supervision controls to ensure that all transactions are identified and recorded. This system should remain in effect despite any personnel changes. Responsibility should be assigned. The organization should provide training to staff so they know what is needed by the accounting department. An emphasis on the importance of complete and accurate financial reporting should be part of the climate of the organization.

All required procedures should be documented in an accounting manual.

Auditee's Response

Corrective Action: Management will take various corrective actions to remediate this condition.

1. Management has implemented monthly meetings with the Executive Director and Department Managers to review department activities that are finance related and the department financial statements. The monthly meetings include reviewing any finance related activities.

Management's goal is to emphasize to staff the importance of having complete and accurate financial reporting in the organization. Management will be conducting a training session on the importance of financial management. There will also be a thorough review on the policies of required documentation that staff members need to submit to the finance department.

2. Management has begun the process of documenting internal control procedures related to financial management. All staff members will be required to attend a financial training that describes these internal controls. Any new staff members hired by the organization will be required to attend a financial management training as part of their orientation period. Internal controls will be reviewed on a quarterly basis. Additional in house trainings will be offered to educate staff on other areas of financial management (i.e. budgeting, grants management).
3. Management will write an accounting manual. This manual is necessary for the successful operations of such a complex organization.

Finding 2005-02 – Reconciliation of Intercompany and Intracompany Accounts

Condition

The organization failed to maintain a system to accurately record all intercompany and intracompany transactions.

Criteria

The internal control system should include a procedure for documenting and reconciling all intercompany and intracompany accounts on a regular schedule.

Effect

In at least three instances, only one side of an intercompany transaction was recorded. For instance, an expense and payable were recorded in one company but the revenue item and receivable were not recorded in the other entity. In addition, funds have been transferred without full legal authority.

Cause

The organization conducts its business through a large number of entities, seven of which are required to be combined in the annual audit. The relationships among the entities are complex, and there was significant staff turnover during the year. As a result, transactions were recorded by a series of individuals who were unfamiliar with the complexities of the organization.

Auditor's Recommendation

A system should be developed to monitor all intercompany and intercompany balances. This system, including identification of responsible individuals, should be documented in writing. Intercompany accounts should be reviewed on a regular schedule. Responsible parties should identify transactions requiring formal agreements between entities, and management should execute the appropriate paperwork.

Auditee's Response

Corrective Action: Management will take various corrective actions to remediate this condition.

1. Management will develop a system to monitor all intercompany balances. This will be part of the finance department's month end closing process and the finance staff will be responsible for reviewing this on a monthly basis. This process will also be incorporated into the written accounting manual.
2. All old balances and relevant general ledger activity associated with these intercompany balances will be researched and rectified as necessary.
3. Management will enforce a policy that requires the executive director and another representative to review formal agreements between entities.

Finding 2005-03 – Monitoring of Revenue Accounts

Condition

Missing revenue was undetected, and therefore not recorded as of the end of the fiscal year.

Criteria

Variations between budgeted and received revenue should be monitored, and the accounts receivable subsidiary ledger should include all anticipated payments.

Effect

Revenue and a related receivable were understated. A check was never received, but staff was not aware of it.

Recommendation

Budget-to-actual variances and status of receivables should be monitored on a regular schedule.

Auditee's Response

Corrective Action: Management will take various corrective actions to remediate this condition.

Management has included monitoring of the revenue accounts as a major responsibility. Management will:

1. Review revenue-related activities during the monthly department meetings.
2. Review the accounts receivable aging report on a regular basis.
3. Implement a grants management system to ensure that all revenue related activities are booked in accounts receivable.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None