

**SOUTHEAST COMMUNITY
DEVELOPMENT CORPORATION
AND SUBSIDIARIES**

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARIES**

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For the Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors
Southeast Community Development Corporation and Subsidiaries
Baltimore, Maryland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Southeast Community Development Corporation (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related consolidated statement of functional expenses for the year ended June 30, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Development Corporation and Subsidiaries as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Southeast Community Development Corporation and Subsidiaries' consolidated statement of functional expenses for the year ended June 30, 2015, and we expressed an unmodified opinion on that audited consolidated statement of functional expenses in our report dated January 7, 2016. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated statement of functional expenses from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017, on our consideration of Southeast Community Development Corporation and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Community Development Corporation and Subsidiaries' internal control over financial reporting and compliance.



Grandizio, Wilkins, Little & Matthews, LLP
May 11, 2017

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 68,048	\$ 242,326
Accounts Receivable - Tenants (Net of Allowance for Doubtful Accounts of \$43,270 for 2016 and 2015)	35,301	28,413
Accounts Receivable - Other	144,433	158,237
Grants Receivable	433,464	317,115
Investments	1,068,625	1,094,623
Prepaid Expenses	4,284	10,449
Employee Loans Receivable	2,000	300
Security Deposits	16,680	14,967
Mortgage Escrow Deposits and Funded Reserves	75,305	67,578
TOTAL CURRENT ASSETS	1,848,140	1,934,008
PROPERTY AND EQUIPMENT		
Land	106,631	106,631
Buildings	3,108,822	3,108,822
Furniture and Equipment	115,513	111,464
Less: Accumulated Depreciation	(933,236)	(847,230)
NET PROPERTY AND EQUIPMENT	2,397,730	2,479,687
OTHER ASSETS		
Development Costs	353,464	299,498
Deferred Financing Fees (Net of Accumulated Amortization of \$8,861 and \$8,364 for 2016 and 2015, Respectively)	24,514	25,011
TOTAL OTHER ASSETS	377,978	324,509
TOTAL ASSETS	\$ 4,623,848	\$ 4,738,204

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,	2016	2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 142,976	\$ 91,805
Prepaid Rents	3,318	3,577
Accrued Salaries, Wages and Taxes	29,636	19,701
Fiscal Agent Liability	144,446	199,418
Security Deposits (Contra)	20,635	24,721
Mortgage Payable - Current	<u>21,368</u>	<u>20,202</u>
TOTAL CURRENT LIABILITIES	<u>362,379</u>	<u>359,424</u>
LONG-TERM LIABILITIES (Rental Property)		
Mortgage Payable	192,235	213,603
Mortgages Payable - BNLP	701,797	701,797
Line-of-Credit	10,081	-
Other Loans and Notes Payable - BNLP	50,000	50,000
Accrued Interest Payable	<u>1,083,252</u>	<u>983,351</u>
TOTAL LONG-TERM LIABILITIES	<u>2,037,365</u>	<u>1,948,751</u>
TOTAL LIABILITIES	<u>2,399,744</u>	<u>2,308,175</u>
NET ASSETS		
Unrestricted Net Assets	<u>2,224,104</u>	<u>2,430,029</u>
TOTAL NET ASSETS	<u>2,224,104</u>	<u>2,430,029</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,623,848</u>	<u>\$ 4,738,204</u>

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30,	2016	2015
SUPPORT AND REVENUES		
Grants from Government Agencies	\$ 185,507	\$ 172,011
Other Grants	1,043,989	787,011
Contributions	43,486	83,925
Rental Income	160,351	150,226
Housing Counseling	38,977	25,495
Events Income	12,798	13,676
Interest Income	-	1,062
Income (Losses) from Investments	(25,641)	71,454
Miscellaneous Income	11,016	1,358
	<u>1,470,483</u>	<u>1,306,218</u>
TOTAL SUPPORT AND REVENUES	1,470,483	1,306,218
EXPENSES		
Program Expenses		
Main Street	289,296	233,291
Housing Counseling	451,586	402,370
Healthy Neighborhood	838,352	707,679
	<u>1,579,234</u>	<u>1,343,340</u>
Total Program Expenses	1,579,234	1,343,340
Management and General	97,174	94,784
	<u>97,174</u>	<u>94,784</u>
TOTAL EXPENSES	1,676,408	1,438,124
CHANGE IN NET ASSETS	(205,925)	(131,906)
Unrestricted Net Assets - Beginning of Year	2,430,029	2,561,935
UNRESTRICTED NET ASSETS - END OF YEAR	\$ <u>2,224,104</u>	\$ <u>2,430,029</u>

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016 (With Comparative Summarized Total For the Year Ended June 30, 2015)

	<u>Community Development</u>			<u>Total</u>	<u>Management</u>	<u>June 30,</u>	<u>Summarized</u>
	<u>Main</u>	<u>Healthy</u>	<u>Housing</u>	<u>Program</u>	<u>and</u>	<u>2016</u>	<u>Total</u>
	<u>Street</u>	<u>Neighborhoods</u>	<u>Counseling</u>	<u>Expenses</u>	<u>General</u>	<u>Total</u>	<u>June 30,</u>
	<u>Program</u>	<u>Program</u>	<u>Program</u>				<u>2015</u>
Salaries, Wages and							
Related Taxes	\$ 112,060	\$ 307,072	\$ 308,802	\$ 727,934	\$ 72,669	\$ 800,603	\$ 669,832
Depreciation Expense	2,580	45,584	33,543	81,707	4,300	86,007	82,896
Contract Labor	860	6,482	16,269	23,611	-	23,611	17,051
Equipment Expense	2,421	261	3,694	6,376	-	6,376	6,837
Fringe Benefits	7,712	25,279	20,439	53,430	3,037	56,467	45,303
Insurance	2,220	11,615	1,427	15,262	-	15,262	16,274
Meetings and Conference	2,290	1,726	9,270	13,286	-	13,286	7,661
Office Expense	760	706	4,190	5,656	-	5,656	6,062
Professional Fees	28,451	17,139	9,436	55,026	2,318	57,344	59,938
Supplies	74	11,927	3,800	15,801	-	15,801	30,274
Advertising, Marketing							
and Promotion	261	15,607	4,474	20,342	-	20,342	20,096
Dues	623	2,770	3,991	7,384	-	7,384	6,170
Travel	202	195	221	618	-	618	1,606
Miscellaneous Expense	651	2,961	817	4,429	1,298	5,727	2,618
Printing	850	2,930	9,366	13,146	-	13,146	9,991
Rent	150	3,072	360	3,582	-	3,582	4,001
Property Maintenance	16,904	11,121	7,498	35,523	300	35,823	28,437
Staff Development	876	7,210	1,361	9,447	-	9,447	4,144
Telephone	2,197	2,215	6,899	11,311	-	11,311	9,733
Loss on Property and							
Equipment Disposal	-	-	-	-	-	-	1,041
Utilities	7,226	5,303	5,729	18,258	-	18,258	15,531
Community Development	99,928	169,848	-	269,776	-	269,776	160,121
Bad Debt	-	6,135	-	6,135	-	6,135	5,467
Management Fees	-	5,100	-	5,100	-	5,100	5,100
Amortization	-	497	-	497	-	497	497
Interest Expense	-	99,901	-	99,901	13,252	113,153	98,764
Contracts	-	67,228	-	67,228	-	67,228	115,069
Taxes	-	8,468	-	8,468	-	8,468	7,610
TOTAL FUNCTIONAL							
EXPENSES	\$ 289,296	\$ 838,352	\$ 451,586	\$ 1,579,234	\$ 97,174	\$ 1,676,408	\$ 1,438,124

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (205,925)	\$ (131,906)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	86,504	83,393
Loss on Property and Equipment Disposal	-	1,041
(Income) Losses from Investment	25,641	(76,746)
Accrued Interest Expense	99,901	87,148
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Tenant	(6,888)	(6,250)
Accounts Receivable - Other	13,804	(154,237)
Grants Receivable	(116,349)	70,482
Prepaid Expenses	6,165	967
Employee Loans Receivable	(1,700)	(226)
Security Deposits	(1,713)	(3,558)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	51,171	24,588
Prepaid Rents	(259)	2,266
Accrued Salaries, Wages and Taxes	9,935	(6,770)
Fiscal Agent Liability	(54,972)	121,077
Security Deposits (Contra)	(4,086)	13,120
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(98,771)	24,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	(4,049)	(25,558)
Purchase of Investments	(243,758)	(373,266)
Proceeds from Investments	244,114	378,558
(Increase) Decrease in Development Costs	(53,966)	(230,136)
(Increase) Decrease in Loans Receivable	-	19,054
(Increase) Decrease in Deposits and Reserves	(7,727)	33,745
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(65,386)	(197,603)
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage Loan Proceeds	-	250,000
Mortgage Loan Repayment	(20,202)	(16,195)
Draw on Line-of-Credit	10,081	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(10,121)	233,805
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(174,278)	60,591
Cash and Cash Equivalents - Beginning of Year	242,326	181,735
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 68,048	\$ 242,326

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies

Nature of the Organization

Southeast Community Development Corporation (Organization) is a nonprofit corporation, organized under the laws of the State of Maryland, to plan, design, develop and assist in initiating real estate, residential and commercial projects in the southeast community of Baltimore City, Maryland. The Organization provides support to area citizenry in identifying affordable housing and business opportunities. The Organization controls one hundred percent (100%) of the equity of the following entities, which were incorporated or organized under Maryland state law:

Wolfe Street Enterprises, LLC (WSE)
Wolfe Street Development Company (WSD)

WSE includes Broadway North Limited Partnership (BNLP) because it exercises significant control over major operating decisions, such as approval of budgets, selection of property managers, asset management, investment activity and changes in financing. Although WSD does not exercise significant control over major operating and management decisions, it exercises significant influence. Due to the assignment of the Limited Partner interest in BNLP to WSE as of June 30, 2015, the financial statements have been consolidated. WSD's interest in BNLP is no longer accounted for by the equity method.

The balances of BNLP reflected in WSE are as of December 31, 2015, the entity's year end.

During 2013, WSE received a 99.9% Limited Partner interest in BNLP.

3323 Eastern Avenue, LLC

The Organization is the sole owner of 3323 Eastern Avenue, LLC. This LLC owns the building from which the Organization currently operates. The Organization is also the sole owner of Hope Development, LLC which is inactive at this time.

Basis of Accounting

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

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The classes of net assets are determined by restrictions, if any, imposed by the donor.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

The consolidated financial statements include the accounts of the Southeast Community Development Corporation's wholly-owned subsidiaries listed in Note 1 above. All material intercompany investments, advances and transactions have been eliminated in consolidation.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, Southeast Community Development Corporation considers all highly liquid investments with an initial maturity of three (3) months or less to be cash equivalents. At June 30, 2016 and 2015, cash and cash equivalents are composed of demand deposits and time deposits.

Grants and Accounts Receivable - Other

The majority of the grants received by the Organization are on a reimbursement basis. Grants receivable reflects costs that had not been reimbursed as of fiscal year end. The Organization uses the direct write-off method and has concluded that all receivable balances are collectible as of the consolidated statements of financial position dates. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Accounts Receivable - Tenants - BNLP

Accounts receivable represents amounts due from tenants. Management has established an allowance for bad debts for those tenants whose outstanding balances are not likely to be collected.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Deferred Financing Fees - BNLP

Deferred financing fees are being amortized using the straight-line method over the life of the related loan. 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. Amortization expense is expected to be \$497 per year for each of the next five (5) years.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which range from five (5) to forty (40) years. Furniture and equipment purchases in excess of \$500 are generally capitalized.

The major classifications of property and equipment as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Useful Life</u>
Land	\$ 106,631	\$ 106,631	
Buildings	3,108,822	3,108,822	40 Years
Furniture and Equipment	<u>115,513</u>	<u>111,464</u>	5 to 7 Years
Total Property and Equipment	<u>3,330,966</u>	<u>3,326,917</u>	
Less: Accumulated Depreciation	<u>(933,236)</u>	<u>(847,230)</u>	
TOTAL	<u><u>\$ 2,397,730</u></u>	<u><u>\$ 2,479,687</u></u>	

Depreciation expense was \$86,007 and \$82,896 for the years ended June 30, 2016 and 2015, respectively.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Deposits and Reserves - BNLP

Under the terms of the Partnership Agreement, BNLP is required to establish an operating reserve account. The operating reserve may be used only to fund operating deficits and may be used before the General Partner makes any operating deficit contribution as required in the Partnership Agreement. The Limited Partner must approve any withdrawals from this account.

Under the terms of the loan agreement with DHCD, BNLP is required to establish a reserve for replacements account. The required monthly payment amounts to \$354, which commenced in April 1998. The funds can only be released upon the approval of DHCD.

Development Costs

The Organization is currently involved in the development of two (2) properties in the Highlandtown area.

Donated Services

The Organization receives a substantial amount of services donated by citizens interested in the Organization's programs. The kinds of services provided generally involved the contribution of time to organize community programs. Because of the difficulty in assigning values for such services, these items are generally not reflected in accompanying consolidated financial statements. However, when the value of donated services is ascertainable, the amounts thereof are reflected in the consolidated financial statements as revenue and expenses. No amount for donated services is recorded for the years ended June 30, 2016 and 2015, since the value for such services is not readily determinable.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Restricted and Unrestricted Revenue

The Organization reports grants and contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the time period or manner of use of the grant or contribution. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Rental Revenue

Rental revenue is recognized as rentals become due. Rental payments received in advance are recorded as prepaid rents. All leases between the Organization and the tenants of the property are operating leases.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes is reflected in the consolidated financial statement. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

No provision or benefit for income taxes related to BNLP has been included in these consolidated financial statements since taxable income or loss deduction and credits pass through to, and are reportable by, the partners on their respective tax returns.

The 2012 through 2014 tax years remain subject to examination by the IRS. The Organization does not believe that any reasonably possible changes will occur within the next twelve (12) months that will have a material impact on the consolidated financial statements.

Advertising

Advertising costs are charged to expense when incurred. Advertising expense for the years ended June 30, 2016 and 2015 amounted \$20,342 and \$20,096, respectively.

Program Descriptions

Main Street - works to attract and retain retail businesses and customers to the Highlandtown historic district.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Program Descriptions (Continued)

Housing Counseling - offers comprehensive housing counseling services including: pre purchase, foreclosure, reverse mortgage and financial coaching to help existing residents obtain and maintain homeownership.

Healthy Neighborhoods - helps southeast Baltimore neighborhoods increase home values, market communities, offer low-interest loans for home purchase and rehabilitation, and obtain grants for block projects.

FASB ASC No. 360

FASB ASC No. 360 requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Application of FASB ASC No. 360 has not materially affected the Organization's reported earnings, financial condition or cash flows.

Date of Management Review

The Organization has evaluated events and transactions that occurred during the period from the date of the consolidated financial statements through May 11, 2017, the date the Organization's consolidated financial statements were available to be issued. There were no events or transactions that occurred during the period that materially impacted the amounts or disclosures in the Organization's consolidated financial statements.

Note 2: Investments

The Organization invests in common stocks, corporate bonds and U.S. Government securities. It uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to all Level 1 investments.

Assets measured at fair value on a recurring basis at June 30, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 57,282	\$ -	\$ -	\$ 57,282
Corporate Stocks	601,520	-	-	601,520
Fixed Income	409,823	-	-	409,823
	<u>\$ 1,068,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,068,625</u>

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 2: Investments (Continued)

Assets measured at fair value on a recurring basis at June 30, 2015 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 19,879	\$ -	\$ -	\$ 19,879
Corporate Stocks	662,654	-	-	662,654
Fixed Income	412,090	-	-	412,090
	<u>\$ 1,094,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,094,623</u>

The following schedule summarizes the investment return for the years ended:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Interest and Dividends	\$ 35,084	\$ 33,023
Realized Gains (Losses), Net	(42,475)	175,681
Unrealized Gains (Losses), Net	(12,837)	(131,958)
Investment Fees	<u>(5,413)</u>	<u>(5,292)</u>
TOTAL	<u>\$ (25,641)</u>	<u>\$ 71,454</u>

Note 3: Concentration of Credit Risk

At various times during the year, the Organization maintained cash balances in one (1) financial institution in excess of \$250,000, the limit of federal insurance. The Organization's investments are maintained by an investment brokerage firm. Although the firm has a diversified investment portfolio, the value of the portfolio is subject to certain market risks. The portfolio is insured up to \$500,000 by the Securities Investor Protection Corporation.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 4: Long-Term Debt - BNLP

Maryland Department of Housing and Community Development (CDA)

On December 30, 1996, BNLP entered into a loan agreement with CDA. Under the terms of the loan agreement, BNLP borrowed \$325,000. The term of the loan is forty (40) years commencing at the end of the construction loan period (which will not exceed fifteen (15) months). The loan was interest free during the construction period and carries a rate of one percent (1%) during the permanent period. Beginning at the end of the first year of the permanent loan period, principal and interest are payable at the end of each year, thereafter, from the lesser of surplus cash or scheduled payments as defined in the Regulatory Agreement.

Any interest and principal not paid because of insufficient surplus cash shall be deferred and paid on the next annual payment date to the extent of surplus cash. Any unpaid principal and accrued interest will be payable on the maturity date or on the occurrence of any of several conditions as defined in the loan agreement. Annual payments shall be applied first to current interest, second to principal and third to the repayment of previously unpaid principal and interest. The loan matures April 1, 2038. The loan is secured by a Deed of Trust, which represents a first lien on the real property. As of December 31, 2015 and 2014, the balance on the mortgage was \$251,797. Deferred interest expense for 2015 and 2014 amounted to \$2,518, per year.

Under agreements with the mortgage lender and DHCD, BNLP is required to make monthly deposits for replacement of project assets and is subject to restrictions as to operating policies, rental charges, operating expenditures and distributions.

Mayor and City Council of Baltimore, Department of Housing and Community Development - HOME Loan and Grant Program

On December 30, 1996, BNLP entered into a loan and grant agreement with the Mayor and City Council of Baltimore, Department of Housing and Community Development. Under the terms of the loan and grant agreements, BNLP borrowed \$450,000 under the HOME Loan and \$50,000 under the HOME Grant. The term of the loan is forty (40) years commencing at the end of the construction loan period (which will not exceed twelve (12) months). Interest does not accrue on the grant portion (\$50,000) of the loan and interest will accrue on each advance of the loan portion at the applicable federal rate in effect on the date of each advance (weighted average of interest rate on advances was 6.8%). If all terms of the loan documents are met, then the grant portion of the loan shall be forgiven at the maturity date. Beginning at the end of the first year of the permanent loan period, principal and interest are payable at the end of each year, thereafter, out of surplus cash as defined in the Regulatory Agreement. Any interest and principal not paid because of insufficient surplus cash shall be deferred and paid on the next annual payment date to the extent of surplus cash.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 4: Long-Term Debt - BNLP (Continued)

Mayor and City Council of Baltimore, Department of Housing and Community Development - HOME Loan and Grant Program (Continued)

Any unpaid principal and accrued interest will be payable on the maturity date or on the occurrence of any of several conditions as defined in the loan agreement. The note is secured by a Deed of Trust, which constitutes a second lien on the real property. The maturity date for both is April 1, 2038. As of December 31, 2015, the outstanding balances amounted to \$450,000 under the HOME Loan and \$50,000 for the HOME Grant. Deferred interest expense for 2015 and 2014 amounted to \$97,383 and \$84,630, respectively, and is classified as accrued interest. Due to the inability to determine surplus cash each year, there have been no annual maturities of the CDA Loan, HOME Loan, or HOME Grant estimated for each of the next five (5) years.

Note 5: Mortgage Payable and Line-of-Credit

The Organization took out a term mortgage loan from a local financial institution in August, 2014 for \$250,000. The loan is secured by the underlying property. The interest rate is 5.29% with a ten (10) year term. Monthly payments are \$2,709.36. Future minimum payments are as follows:

<u>June 30,</u>		
2017	\$	21,368
2018		22,565
2019		23,830
2020		25,146
2021		26,574
Thereafter		94,120

The Organization also established a line-of-credit at that time for \$100,000. The rate is one and one-half percent (1.5%) over prime rate. The line is secured by all assets of the Organization. The balance on the line-of-credit at June 30, 2016 and 2015 was \$10,081 and \$-0-, respectively.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 6: Fees and Grants from Government Agencies

A portion of the Organization's revenue is derived from government agencies. The expendability of these funds is subject to various restrictions imposed by the specific program through which funds are obtained. The following summarizes revenue provided by government agencies for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>Federal Government</u>		
Community Development Block Grant	\$ 117,448	\$ 108,738
Housing and Urban Development	21,009	18,273
	<u>138,457</u>	<u>127,011</u>
<u>County Government</u>		
Baltimore County	47,050	45,000
	<u>47,050</u>	<u>45,000</u>
 TOTAL	 <u><u>\$ 185,507</u></u>	 <u><u>\$ 172,011</u></u>

Note 7: Lease Expense

The Organization leased office space under an operating lease prior to moving into new office space they own and developed. Rent expense for the years ended June 30, 2016 and 2015 was \$3,582 and \$4,001, respectively.

The Organization also leases a copier under a sixty (60) month lease that expires in March 2019. Future minimum payments are as follows:

<u>June 30,</u>	
2017	\$ 4,740
2018	4,740
2019	1,185

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 8: Management Agent - BNLP

BNLP has entered into a management agreement with Hersch-Lauren, LLC. The fee is \$425 per month. Total management fees amounted to \$5,100 for 2015 and 2014. The agreement has been approved by DHCD and remains in effect until termination by, or with the consent of, DHCD.

Note 9: Loan Receivable

The Organization loaned funds on June 3, 2011 to two individuals unrelated to the Organization for the purchase of a property in southeast Baltimore. The loan has a fixed annual rate of ten percent (10.0%), a maturity date of February 1, 2015, and is guaranteed by an outside third party. The loan was fully collected by February 1, 2015.

Note 10: Grants Receivable

Grants receivable are deemed to be fully collectible by management and are composed of the following:

	June 30, 2016	June 30, 2015
Baltimore Community Foundation	\$ 10,600	\$ 6,739
State of Maryland	90,903	94,843
HomeFree	21,009	15,000
DHCD Housing Counseling Fund	67,500	73,750
Baltimore Development Corporation	6,250	13,719
Enterprise Community Partners	23,325	3,292
Highlandtown Elementary	16,500	16,500
Stephen Gondol	-	490
Healthy Neighborhoods, Inc.	1,740	6,948
Community Legacy	-	16,610
Baltimore Office of Sustainability	5,000	-
NFMC	18,450	20,000

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 10: Grants Receivable (Continued)

	June 30, 2016	June 30, 2015
Mayor and City Council	\$ 28,692	\$ 19,870
Goldseker	100,000	-
Baltimore County Maryland	9,633	13,767
Johns Hopkins University	20,000	-
United Way	-	4,026
Parks and People Foundation	-	92
Family League of Baltimore	<u>13,862</u>	<u>11,469</u>
TOTAL	\$ <u>433,464</u>	\$ <u>317,115</u>

Note 11: Commitments and Contingencies - BNLP

BNLP received through WSD, a Community Development Block Grant in the amount of \$100,000. The funds were used toward the acquisition costs of the land. Performance of the conditions of the grant is secured by a third lien covering the Project. In the event the Project is sold, the grant funds must be returned to DHCD.

Note 12: Transaction with Affiliates and Related Parties - BNLP

Development and Overhead Fee

BNLP entered into a development services agreement with WSD. Under the terms of the agreement, BNLP paid a developer's fee to the WSD in the amount of \$219,682 and a partial reimbursement of development overhead in the amount of \$73,415. The fees have been capitalized as part of the building costs.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 13: Current Vulnerability Due to Certain Concentrations - BNLP

BNLP's sole asset is its rental housing project. BNLP's operations are concentrated in the multifamily real estate market. In addition, BNLP operates in a heavily regulated environment. The operations of BNLP are subject to the administrative directives, rules and regulations of state and local regulatory agencies, including, but not limited to, DHCD. Such administrative directives, rules and regulations are subject to change by an act of the state or an administrative change mandated by DHCD. 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.



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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

The Board of Directors
Southeast Community Development Corporation and Subsidiaries
Baltimore, Maryland

Report on the Consolidating Financial Statements

We have audited the consolidated financial statements of Southeast Community Development Corporation and Subsidiaries as of and for the years ended June 30, 2016 and 2015, and our report thereon dated May 11, 2017 which contained an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 20 through 21 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, and results of operations of the individual companies.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Grandizio, Wilkins, Little & Matthews, LLP

Grandizio, Wilkins, Little & Matthews, LLP
May 11, 2017

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

	Southeast Community Development Corporation	3323 Eastern Avenue, LLC	Wolfe Street Enterprises, LLC	Wolfe Street Development Company	Intercompany Eliminations	Total
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 67,203	\$ -	\$ 845	\$ -	\$ -	\$ 68,048
Accounts Receivable - Tenants (Net of Allowance for Doubtful Accounts of \$43,270)	-	-	35,301	-	-	35,301
Accounts Receivable - Other	144,433	-	-	-	-	144,433
Grants Receivable	433,464	-	-	-	-	433,464
Investments	1,068,625	-	-	-	-	1,068,625
Prepaid Expenses	-	-	4,284	-	-	4,284
Employee Loans Receivable	2,000	-	-	-	-	2,000
Security Deposits	854	-	15,826	-	-	16,680
Mortgage Escrow Deposits and Funded Reserves	-	-	75,305	-	-	75,305
TOTAL CURRENT ASSETS	1,716,579	-	131,561	-	-	1,848,140
PROPERTY AND EQUIPMENT						
Land	-	-	106,631	-	-	106,631
Buildings	180,594	1,239,689	1,688,539	-	-	3,108,822
Furniture and Equipment	66,722	-	48,791	-	-	115,513
Less: Accumulated Depreciation	(56,688)	(98,615)	(777,933)	-	-	(933,236)
TOTAL PROPERTY AND EQUIPMENT	190,628	1,141,074	1,066,028	-	-	2,397,730
OTHER ASSETS						
Development Costs	353,464	-	-	-	-	353,464
Investments	481,711	-	-	97,999	(579,710)	-
Deferred Financing Fees (Net of Accumulated Amortization of \$8,861)	-	-	24,514	-	-	24,514
TOTAL OTHER ASSETS	835,175	-	24,514	97,999	(579,710)	377,978
TOTAL ASSETS	\$ 2,742,382	\$ 1,141,074	\$ 1,222,103	\$ 97,999	\$ (579,710)	\$ 4,623,848

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

	<u>Southeast Community Development Corporation</u>	<u>3323 Eastern Avenue, LLC</u>	<u>Wolfe Street Enterprises, LLC</u>	<u>Wolfe Street Development Company</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES						
Accounts Payable	\$ 120,512	\$ -	\$ 22,464	\$ -	\$ -	\$ 142,976
Prepaid Rents	-	-	3,318	-	-	3,318
Accrued Salaries, Wages and Taxes	29,636	-	-	-	-	29,636
Fiscal Agent Liability	144,446	-	-	-	-	144,446
Tenants' Security Deposits (Contra)	-	-	20,635	-	-	20,635
Mortgage Payable - Current	21,368	-	-	-	-	21,368
TOTAL CURRENT LIABILITIES	315,962	-	46,417	-	-	362,379
LONG-TERM LIABILITIES (Rental Property)						
Mortgage Payable	192,235	-	-	-	-	192,235
Mortgages Payable - BNL P	-	-	701,797	-	-	701,797
Line-of-Credit	10,081	-	-	-	-	10,081
Other Loans and Notes Payable	-	-	50,000	-	-	50,000
Accrued Interest Payable	-	-	1,083,252	-	-	1,083,252
TOTAL LONG-TERM LIABILITIES	202,316	-	1,835,049	-	-	2,037,365
TOTAL LIABILITIES	518,278	-	1,881,466	-	-	2,399,744
NET ASSETS/EQUITY						
Unrestricted Net Assets	2,224,104	-	-	-	-	2,224,104
Partners' Equity (Deficit)	-	1,141,074	(659,363)	97,999	(579,710)	-
TOTAL NET ASSETS/EQUITY (DEFICIT)	2,224,104	1,141,074	(659,363)	97,999	(579,710)	2,224,104
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,742,382	 \$ 1,141,074	 \$ 1,222,103	 \$ 97,999	 \$ (579,710)	 \$ 4,623,848

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	<u>Southeast Community Development Corporation</u>	<u>3323 Eastern Avenue, LLC</u>	<u>Wolfe Street Enterprises, LLC</u>	<u>Wolfe Street Development Company</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
SUPPORT AND REVENUES						
Grants from Government Agencies	\$ 185,507	\$ -	\$ -	\$ -	\$ -	\$ 185,507
Other Grants	1,043,989	-	-	-	-	1,043,989
Contributions	43,486	-	-	-	-	43,486
Rental Income	5,800	-	154,551	-	-	160,351
Housing Counseling	38,977	-	-	-	-	38,977
Events Income	12,798	-	-	-	-	12,798
Income (Losses) from Investments	(25,998)	-	357	-	-	(25,641)
Miscellaneous Income	11,012	-	4	-	-	11,016
TOTAL SUPPORT AND REVENUES	<u>1,315,571</u>	<u>-</u>	<u>154,912</u>	<u>-</u>	<u>-</u>	<u>1,470,483</u>
EXPENSES						
Program Expenses						
Main Street	289,296	-	-	-	-	289,296
Housing Counseling	451,586	-	-	-	-	451,586
Healthy Neighborhood	529,417	30,992	277,943	-	-	838,352
Total Program Expenses	1,270,299	30,992	277,943	-	-	1,579,234
Management and General	97,174	-	-	-	-	97,174
TOTAL EXPENSES	<u>1,367,473</u>	<u>30,992</u>	<u>277,943</u>	<u>-</u>	<u>-</u>	<u>1,676,408</u>
OTHER INCOME (EXPENSES)						
Investment Income (Loss) From						
Private Company	(154,023)	-	-	(123)	154,146	-
CHANGES IN NET ASSETS AND PARTNERS' EQUITY (DEFICIT)	<u>(205,925)</u>	<u>(30,992)</u>	<u>(123,031)</u>	<u>(123)</u>	<u>154,146</u>	<u>(205,925)</u>
Unrestricted Net Assets - Beginning of Year	2,430,029	-	-	-	-	2,430,029
Partners' Equity (Deficit) - Beginning of Year	-	1,172,066	(536,332)	98,122	(733,856)	-
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 2,224,104</u>	<u>\$ 1,141,074</u>	<u>\$ (659,363)</u>	<u>\$ 97,999</u>	<u>\$ (579,710)</u>	<u>\$ 2,224,104</u>

See independent auditor's report and accompanying notes.



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

The Board of Directors
Southeast Community Development Corporation and Subsidiaries
Baltimore, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southeast Community Development Corporation and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southeast Community Development Corporation and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Development Corporation and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Development Corporation and Subsidiaries' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Community Development Corporation and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of their 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Grandizio, Wilkins, Little & Matthews, LLP
May 11, 2017