

**SOUTHEAST COMMUNITY
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION

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Certified Public Accountants

Grandizio, Wilkins, Little & Matthews, LLP

Millersville Office:
8370 Veterans Highway
Suite 104
Millersville, MD 21108

Kenilworth Office:
1122 Kenilworth Drive
Suite 413
Towson, MD 21204

Henry A. Grandizio, CPA/MS
Harry T. Wilkins, CPA/MPA
G. Arthur Little, CPA
Thomas W. Matthews, CPA/MS
Daniel L. Harrington, CPA

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Southeast Community Development Corporation
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Community Development Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

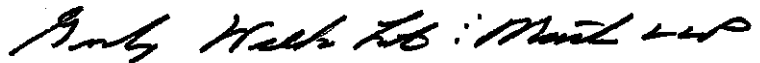
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Development Corporation as of June 30, 2013, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Southeast Community Development Corporation's 2012 financial statements, and our report dated November 15, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements 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 March 28, 2014 on our consideration of Southeast Community Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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's internal control over financial reporting and compliance.



Grandizio, Wilkins, Little & Matthews, LLP

March 28, 2014
Millersville, Maryland

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION

<u>As of June 30,</u>	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 195,202	\$ 147,767
Accounts Receivable	4,844	994
Grants Receivable	375,757	226,105
Investments	1,280,038	1,576,897
Prepaid Expenses	3,874	3,683
Loan Receivable	34,000	30,000
Employee Loans Receivable	<u>3,302</u>	<u>223</u>
TOTAL CURRENT ASSETS	<u>1,897,017</u>	<u>1,985,669</u>
PROPERTY AND EQUIPMENT		
Buildings	1,299,356	-
Furniture and Equipment	51,817	49,140
Less: Accumulated Depreciation	<u>(52,252)</u>	<u>(41,258)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>1,298,921</u>	<u>7,882</u>
OTHER ASSETS		
Development Costs	-	231,292
Deposits	<u>-</u>	<u>1,100</u>
TOTAL ASSETS	<u>\$ 3,195,938</u>	<u>\$ 2,225,943</u>

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION

<u>As of June 30,</u>	<u>2013</u>	<u>2012</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 91,019	\$ 68,242
Accrued Salaries, Wages and Taxes	10,146	8,794
Fiscal Agent Liability	22,726	-
TOTAL CURRENT LIABILITIES	<u>123,891</u>	<u>77,036</u>
TOTAL LIABILITIES	123,891	77,036
NET ASSETS		
UNRESTRICTED NET ASSETS	<u>3,072,047</u>	<u>2,148,907</u>
TOTAL NET ASSETS	<u>3,072,047</u>	<u>2,148,907</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,195,938</u>	<u>\$ 2,225,943</u>

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES

For the Year Ended June 30, 2013 (with Comparative Totals for year Ended June 30, 2012)

	2013		Total	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
SUPPORT AND REVENUES				
Grants from Government Agencies	\$ -	\$ 225,646	\$ 225,646	\$ 213,650
Other Grants	-	1,453,423	1,453,423	489,122
Contributions	4,436	-	4,436	15,329
Rental Income	4,500	-	4,500	4,500
Housing Counseling	3,627	-	3,627	3,315
Events Income	25,093	-	25,093	39,333
Interest Income	3,979	-	3,979	3,435
Income (Losses) from Investments	137,842	-	137,842	104,491
Miscellaneous Income	35	-	35	1,135
<u>Net Assets Released From Restrictions</u>				
Satisfaction of Program Restrictions	1,679,069	(1,679,069)	-	-
TOTAL SUPPORT AND REVENUES	1,858,581	-	1,858,581	874,310
EXPENSES				
Program Expenses				
Main Street	191,663	-	191,663	218,301
Housing Counseling	289,385	-	289,385	256,040
Healthy Neighborhood	356,823	-	356,823	252,905
Total Program Expenses	837,871	-	837,871	727,246
Management and General	97,570	-	97,570	49,129
TOTAL EXPENSES	935,441	-	935,441	776,375
CHANGE IN NET ASSETS	923,140	-	923,140	97,935
Beginning Net Assets	2,148,907	-	2,148,907	2,050,972
ENDING NET ASSETS	\$ 3,072,047	\$ -	\$ 3,072,047	\$ 2,148,907

See independent auditors' report and accompanying notes.

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES**

For the Years Ended June 30, 2013 and 2012

	<u>Main Street Program</u>	<u>Housing Counseling Program</u>	<u>Healthy Neighborhoods Program</u>	<u>Total Program Expenses</u>	<u>Management and General</u>	<u>June 30, 2013 Total</u>	<u>Summarized Total June 30, 2012</u>
Salaries, Wages and Related Taxes	\$ 100,488	\$ 217,879	\$ 147,411	\$ 465,778	\$ 63,690	\$ 529,468	\$ 471,099
Depreciation Expense	-	-	-	-	15,118	15,118	3,984
Contract Labor	1,650	3,342	10,114	15,106	-	15,106	14,704
Equipment Expense	1,242	2,866	1,692	5,800	-	5,800	5,130
Fringe Benefits	9,114	12,174	10,867	32,155	4,035	36,190	34,705
Insurance	817	1,487	1,042	3,346	-	3,346	2,449
Meetings and Conference	981	1,553	1,973	4,507	-	4,507	2,291
Office Expense	500	4,273	790	5,563	-	5,563	3,272
Professional Fees	1,161	12,160	9,641	22,962	13,199	36,161	20,375
Supplies	523	1,041	599	2,163	-	2,163	1,886
Advertising, Marketing and Promotion	23,868	2,079	18,599	44,546	-	44,546	96,663
Dues	879	965	1,511	3,355	-	3,355	2,775
Travel	1,400	517	71	1,988	-	1,988	3,474
Miscellaneous Expense	921	852	703	2,476	-	2,476	6,849
Printing	1,707	8,683	7,477	17,867	-	17,867	11,858
Rent	5,048	8,836	6,183	20,067	-	20,067	17,788
Property Maintenance	5,017	957	320	6,294	-	6,294	1,974
Staff Development	390	2,096	400	2,886	-	2,886	624
Telephone	4,146	3,521	1,912	9,579	-	9,579	10,017
Loss on property and equipment disposal	-	-	-	-	1,528	1,528	-
Utilities	2,939	3,328	3,213	9,480	-	9,480	7,877
Community Development	28,872	776	132,305	161,953	-	161,953	56,581
TOTAL FUNCTIONAL EXPENSES	\$ 191,663	\$ 289,385	\$ 356,823	\$ 837,871	\$ 97,570	\$ 935,441	\$ 776,375

See independent auditors' report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 923,140	\$ 97,935
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation Expense	15,118	3,984
Loss on Property and Equipment Disposal	1,528	-
(Income) Losses from Investment	(137,842)	(104,491)
(Increase) Decrease in Operating Assets:		
Employee Loans Receivable	(3,079)	4,675
Accounts Receivable	(3,850)	(244)
Grants Receivable	(149,652)	(96,720)
Prepaid Expenses	(191)	24
Deposits	1,100	-
Increase (Decrease) in Current Liabilities:		
Accounts Payable	22,777	24,819
Accrued Salaries, Wages and Taxes	22,726	(12,160)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>691,775</u>	<u>(82,178)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Buildings	(1,299,356)	-
Purchase of Property and Equipment	(8,329)	(322)
Net Change in Development Costs	231,292	(153,283)
Net Change in Loans Receivable	(4,000)	-
Proceeds from Investments	434,701	278,696
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(645,692)</u>	<u>125,091</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,435	42,913
Cash and Cash Equivalents - Beginning of Year	<u>147,767</u>	<u>104,854</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 195,202</u>	<u>\$ 147,767</u>

See independent auditors' report and accompanying notes.

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies

Nature of the Organization

Southeast Community Development Corporation (Organization) is a non-profit 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.

Basis of Accounting

Southeast Community Development Corporation follows standards of accounting for voluntary health and welfare organizations as described in the American Institute of Certified Public Accountants' "Industry Guide for Not-for-Profit Organizations."

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Southeast Community Development Corporation and changes therein are classified and reported as follows:

Unrestricted Net Assets represent resources over which the Board of Directors has discretionary control and are used to carry out operations of the Organization in accordance with its bylaws.

Temporarily Restricted Net Assets represent resources available for use, but expendable only for those operating purposes specified by the donor. Resources of this fund originate from contributions and grants. The Organization has no such net assets as of June 30, 2013 and 2012.

Permanently Restricted Net Assets represent resources which are restricted indefinitely, such as endowments. The Organization has no such net assets as of June 30, 2013 and 2012.

Use of Estimates in Preparing Financial Statements

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

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 1: Summary Of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement 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, 2013 and 2012, cash and cash equivalents are composed of demand deposits and time deposits.

Grants and Accounts Receivable

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 balance sheet dates. This method does not follow generally accepted accounting principles, but the difference is not deemed material.

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 5 to 40 years. Furniture and equipment purchases in excess of \$250 are generally capitalized.

The major classifications of property and equipment as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>	<u>Useful Life</u>
Buildings	\$ 1,299,356	\$ -	40 Years
Furniture and Equipment	51,817	49,140	5 to 7 Years
Total Property and Equipment	<u>1,351,173</u>	<u>49,140</u>	
Less: Accumulated Depreciation	(52,252)	(41,258)	
	<u>\$ 1,298,921</u>	<u>\$ 7,882</u>	

Depreciation expense was \$15,118 and \$3,984 for the years ended June 30, 2013 and 2012, respectively.

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013 and 2012

Note 1: Summary Of Significant Accounting Policies (Continued)

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 financial statements. However, when the value of donated services is ascertainable, the amounts thereof are reflected in the financial statements as revenue and expenses. No amount for donated services is recorded for the years ended June 30, 2013 and 2012, 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 statements of activities and in the 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.

Recognition of Donor Restrictions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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 (that is, when a stipulated time restricting ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Tax and Uncertainties

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 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).

The Organization's evaluation on June 30, 2013 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2009 through 2011 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 months that will have a material impact on the financial statements.

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS**

June 30, 2013 and 2012

Note 1: Summary Of Significant Accounting Policies (Continued)

Advertising

Advertising costs are charged to expense when incurred. Advertising expense for the years ended June 30, 2013 and 2012 amounted \$44,546 and \$96,663, respectively.

Program Descriptions

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

Housing Counseling – assistance provided to southeast Baltimore residents to update existing housing and provide additional affordable housing.

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.

Date of Management Review

The Organization has considered subsequent events through March 28, 2014, the date which the financial statements were available to be issued, noting no material subsequent events that would impair fairness of the Organization's financial statements as of and for the year ending June 30, 2013.

Note 2: Investments

The Organization has adopted SFAS No. 157 *Fair Value Measurements* for the years ended June 30, 2013 and 2012 for certain financial assets that are recognized or disclosed at fair value in the financial statement on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands financial statement disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, SFAS No. 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 2: Investments (Continued)

- Level 1 – inputs are based upon unadjusted quoted price for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flows models, and similar techniques.

The Organization 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, 2013 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 5,705	-	-	\$ 5,705
Corporate Stocks	828,822	-	-	828,822
Fixed Income	445,511	-	-	445,511
	<u>\$ 1,280,038</u>	<u>-</u>	<u>-</u>	<u>\$ 1,280,038</u>

Assets measured at fair value on a recurring basis at June 30, 2012 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 203,612	-	-	\$ 203,612
Corporate Stocks	880,755	-	-	880,755
Fixed Income	492,530	-	-	492,530
	<u>\$ 1,576,897</u>	<u>-</u>	<u>-</u>	<u>\$ 1,576,897</u>

All Organization investments are classified as available-for-sale. The following table summarizes activity for the year ending June 30, 2013:

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 2: Investments (Continued)

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>
Cash and Money Market	\$ 5,705	\$ 5,705	\$ -	\$ -
Corporate Stocks	828,822	431,488	401,194	3,860
Fixed Income	445,511	440,185	7,319	1,993
	<u>\$ 1,280,038</u>	<u>\$ 877,378</u>	<u>\$ 408,513</u>	<u>\$ 5,853</u>

The following table summarizes activity for the year ending June 30, 2012:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>
Cash and Money Market	\$ 203,612	\$ 203,612	\$ -	\$ -
Corporate Stocks	880,755	424,410	462,205	5,860
Fixed Income	492,530	471,537	21,722	729
	<u>\$1,576,897</u>	<u>\$1,099,559</u>	<u>\$ 483,927</u>	<u>\$ 6,589</u>

Realized gains and losses are calculated on a first-in-first-out (FIFO) basis. During the years ending June 30, 2013 and 2012, sales proceeds and gross realized gains and losses on securities classified as available-for-sale were:

	<u>2013</u>	<u>2012</u>
Sales Proceeds	\$ <u>305,191</u>	\$ <u>151,770</u>
Gross Realized Losses	\$ <u>-</u>	\$ <u>1,526</u>
Gross Realized Gains	\$ <u>161,738</u>	\$ <u>43,650</u>

As of June 30, 2013 and 2012, the following available-for-sale securities were in an unrealized loss position:

	<u>2013</u>		<u>2012</u>	
<u>For a period of less than 12 months</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Corporate Stock	\$ -	\$ -	\$ -	\$ -
Fixed Income	54,125	1,993	52,672	729
	<u>\$ 54,125</u>	<u>\$ 1,993</u>	<u>\$ 52,672</u>	<u>\$ 729</u>

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 2: Investments (Continued)

	2013		2012	
<u>For a period of more than 12 months</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Corporate Stock	\$ 36,563	\$ 3,860	\$ 70,889	\$ 5,860
Fixed Income	-	-	-	-
	36,563	3,860	70,889	5,860
	\$ 97,597	\$ 5,853	\$123,561	\$ 6,589

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

	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>
Interest and Dividends	\$ 50,782	\$ 42,606
Realized Gains (Losses), Net	161,738	42,124
Unrealized Gains (Losses), Net	(74,678)	19,761
Management Fees	(7,267)	(8,018)
TOTAL	\$ 130,575	\$ 96,473

Note 3: Concentration of Credit Risk

At various times during the year, the Organization maintained cash balances in one 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.

Note 4: Development Costs

The Organization has expended funds for the purchase and rehabilitation of office space that the Organization began occupying during this past fiscal year. This category is new included in property and equipment.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 5: Fees and Grants from Government Agencies

A significant 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 year ended June 30, 2013 with comparable totals for the year ended June 30, 2012:

	<u>2013</u>	<u>2012</u>
<u>Federal Government</u>		
Community Development Block Grant	\$ 106,288	\$ 107,681
Housing and Urban Development	27,081	26,590
Housing Authority for Baltimore City	-	2,642
Nation Foreclosure Mitigation Counseling	51,000	63,950
	<u>184,369</u>	<u>200,863</u>
<u>County Government</u>		
Baltimore County	41,277	12,787
	<u>41,277</u>	<u>12,787</u>
	<u>\$ 225,646</u>	<u>\$ 213,650</u>

Note 6: 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, 2013 and 2012 was \$20,067 and \$17,788, respectively.

Note 7: Commitments

The Organization has entered into a joint venture with an outside third party to develop properties in southeast Baltimore. The Organization is committed to provide 10% of the construction costs and will share in the profits upon completion and sale of the properties.

Note 8: 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 10.0%, a maturity date of June 15, 2012, and is guaranteed by an outside third party. In addition to interest and principal repayment, the Organization receives 5% of the net profit received from the sale.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Note 9: Grants Receivable

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

	June 30, <u>2013</u>	June 30, <u>2012</u>
Baltimore Community Foundation	\$ 33,978	\$ 20,000
SEEDCO	-	6,532
HomeFree	8,626	-
DHCD Housing Counseling Fund	78,150	32,500
Baltimore Development Corporation	31,250	18,750
Baltimore Neighborhood Collaborative	15,000	15,000
Healthy Neighborhoods, Inc.	32,800	4,273
Community Legacy	40,000	-
NFMC	31,000	-
Mayor & City Council	44,807	26,427
CitiBank	500	-
Baltimore County Maryland	54,064	12,787
Housing and Urban Development	-	12,736
Chesapeake Bay Trust	5,582	67,100
VITA	-	10,000
	\$ <u>375,757</u>	\$ <u>226,105</u>



Certified Public Accountants

Grandizio, Wilkins, Little & Matthews, LLP

Millersville Office:
8370 Veterans Highway
Suite 104
Millersville, MD 21108

Kenilworth Office:
1122 Kenilworth Drive
Suite 413
Towson, MD 21204

Henry A. Grandizio, CPA/MS
Harry T. Wilkins, CPA/MPA
G. Arthur Little, CPA
Thomas W. Matthews, CPA/MS
Daniel L. Harrington, CPA

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

The Board of Directors
Southeast Community Development Corporation
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 financial statements of Southeast Community Development Corporation (a non-profit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.