

**SOUTHEAST COMMUNITY
DEVELOPMENT CORPORATION
AND SUBSIDIARIES**

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

**SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
AND SUBSIDIARIES**

Table of Contents

For the Years Ended June 30, 2014 and 2013

	<u>PAGE(S)</u>	
Independent Auditor's Report on the Consolidated Financial Statements.....	1-2	
Consolidated Financial Statements		
Statements of Financial Position.....	3-3A	
Statements of Activities.....	4	
Statement of Functional Expenses.....	5	
Statements of Cash Flows.....	6	
Notes to Consolidated Financial Statements.....	7-19	
Consolidating Information		
Independent Auditor's Report on Consolidating Financial Information.....	20	
Consolidating Statement of Financial Position.....	21-21A	
Consolidating Statement of Activities.....	22	
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 <i>Government Auditing Standards</i>		23-24



Certified Public Accountant

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 AUDITOR'S 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, 2014 and 2013, 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, 2014, 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.

Auditor's 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2014 and 2013, 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, 2013, and we expressed an unmodified opinion on that audited consolidated statement of functional expenses in our report dated March 28, 2014. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2013, 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 February 11, 2015, 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

February 11, 2015
Millersville, Maryland

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,	2014	Restated 2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 181,735	\$ 195,202
Accounts Receivable - Tenants (Net of Allowance for Doubtful Accounts of \$32,852 for 2014)	22,163	-
Accounts Receivable - Other	4,000	4,844
Grants Receivable	387,597	375,757
Investments	1,023,169	1,280,038
Prepaid Expenses	11,416	3,874
Loan Receivable	19,054	34,000
Employee Loans Receivable	74	3,302
Tenants' Security Deposits	11,409	-
Mortgage Escrow Deposits and Funded Reserves	101,323	-
TOTAL CURRENT ASSETS	<u>1,761,940</u>	<u>1,897,017</u>
PROPERTY AND EQUIPMENT		
Land	106,631	-
Buildings	3,108,822	1,299,356
Furniture and Equipment	106,578	51,817
Less: Accumulated Depreciation	<u>(783,965)</u>	<u>(52,252)</u>
NET PROPERTY AND EQUIPMENT	<u>2,538,066</u>	<u>1,298,921</u>
OTHER ASSETS		
Development Costs	69,362	-
Investment In Private Company	-	98,418
Deferred Financing Fees (Net of Accumulated Amortization of \$7,867 and \$7,370, Respectively)	<u>25,508</u>	<u>-</u>
TOTAL OTHER ASSETS	<u>94,870</u>	<u>98,418</u>
TOTAL ASSETS	<u>\$ 4,394,876</u>	<u>\$ 3,294,356</u>

See independent auditor's report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,	2014	Restated 2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 67,217	\$ 91,019
Prepaid Rents	1,311	-
Accrued Salaries, Wages and Taxes	26,471	10,146
Fiscal Agent Liability	78,341	22,726
Tenants' Security Deposits (Contra)	<u>11,601</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>184,941</u>	<u>123,891</u>
LONG-TERM LIABILITIES (Rental Property)		
Mortgages Payable	701,797	-
Other Loans and Notes Payable	50,000	-
Accrued Interest Payable	<u>896,203</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>1,648,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,832,941</u>	<u>123,891</u>
NET ASSETS		
Unrestricted Net Assets	<u>2,561,935</u>	<u>3,170,465</u>
TOTAL NET ASSETS	<u>2,561,935</u>	<u>3,170,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,394,876</u>	<u>\$ 3,294,356</u>

See independent auditor's report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
SUPPORT AND REVENUES		
Grants from Government Agencies	\$ 175,912	\$ 225,646
Other Grants	494,609	1,453,423
Contributions	1,905	4,436
Rental Income	140,927	4,500
Housing Counseling	8,714	3,627
Events Income	22,430	25,093
Interest Income	1,502	3,979
Income (Losses) from Investments	189,967	137,842
Miscellaneous Income	293	35
TOTAL SUPPORT AND REVENUES	<u>1,036,259</u>	<u>1,858,581</u>
EXPENSES		
Program Expenses		
Main Street	252,507	191,663
Housing Counseling	379,123	289,385
Healthy Neighborhood	566,980	356,823
Total Program Expenses	<u>1,198,610</u>	<u>837,871</u>
Management and General	107,467	97,570
TOTAL EXPENSES	<u>1,306,077</u>	<u>935,441</u>
OTHER INCOME (EXPENSE)		
Investment Income (Loss) From Private Company	<u>-</u>	<u>(95)</u>
INCOME (LOSS) BEFORE ASSIGNMENT OF NET ASSETS	<u>(269,818)</u>	<u>923,045</u>
Assignment of Net Assets	<u>(240,294)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(510,112)</u>	<u>923,045</u>
Unrestricted Net Assets - Beginning of Year	3,170,465	2,247,420
Change in Reporting	<u>(98,418)</u>	<u>-</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 2,561,935</u>	<u>\$ 3,170,465</u>

See independent auditor's report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

<u>For the Year Ended June 30, 2014 (With Comparative Summarized Total For the Year Ended June 30, 2013)</u>						
	<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>Summarized Total June 30, 2013</u>
Salaries, Wages and Related Taxes	\$ 111,869	\$ 268,276	\$ 171,110	\$ 551,255	\$ 71,095	\$ 529,468
Depreciation Expense	1,910	28,655	43,887	74,452	3,820	15,118
Contract Labor	1,927	3,763	21,183	26,873	-	15,106
Equipment Expense	1,065	5,038	933	7,036	-	5,800
Fringe Benefits	8,948	16,276	13,788	39,012	12,335	36,190
Insurance	2,301	2,341	11,739	16,381	-	3,346
Meetings and Conference	955	1,844	1,180	3,979	-	4,507
Office Expense	195	4,955	808	5,958	-	5,563
Professional Fees	3,141	3,397	25,157	31,695	15,217	36,161
Supplies	533	1,094	19,736	21,363	-	2,163
Advertising, Marketing and Promotion	20,897	2,564	3,243	26,704	-	44,546
Dues	839	2,541	1,528	4,908	-	3,355
Travel	207	441	657	1,305	-	1,988
Miscellaneous Expense	1,054	924	4,715	6,693	-	2,476
Printing	115	10,498	2,111	12,724	-	17,867
Rent	-	870	-	870	-	20,067
Property Maintenance	7,445	9,436	6,225	23,106	5,000	6,294
Staff Development	225	1,539	2,265	4,029	-	2,886
Telephone	1,933	6,824	1,703	10,460	-	9,579
Loss on property and equipment disposal	-	-	-	-	-	1,528
Utilities	3,003	7,442	13,482	23,927	-	9,480
Community Development	83,945	405	76,773	161,123	-	161,953
Bad Debt	-	-	1,530	1,530	-	-
Management Fees	-	-	5,100	5,100	-	-
Amortization	-	-	497	497	-	-
Interest Expense	-	-	94,325	94,325	-	-
Contracts	-	-	34,849	34,849	-	-
Taxes	-	-	8,456	8,456	-	-
TOTAL FUNCTIONAL EXPENSES	\$ 252,507	\$ 379,123	\$ 566,980	\$ 1,198,610	\$ 107,467	\$ 935,441

See independent auditor's report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (510,112)	\$ 923,045
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	78,769	15,118
Loss on Property and Equipment Disposal	-	1,528
(Income) Losses from Investment	(189,967)	(137,842)
Losses from Investment in Private Company	-	95
Accrued Interest Expense	94,325	-
Assignment of Net Assets in Private Company	245,986	-
(Increase) Decrease in Operating Assets:		
Employee Loans Receivable	3,228	(3,079)
Accounts Receivable - Other	29,494	(3,850)
Accounts Receivable - Tenant	(7,016)	-
Grants Receivable	(11,840)	(149,652)
Prepaid Expenses	(3,258)	(191)
Tenants' Security Deposits	(3)	-
Deposits	-	1,100
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(30,428)	22,777
Prepaid Rents	(29)	-
Accrued Salaries, Wages and Taxes	16,325	1,352
Fiscal Agent Liability	55,615	22,726
Tenants' Security Deposits (Contra)	969	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(227,942)	693,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Buildings	(120,927)	(1,299,356)
Purchase of Furniture and Equipment	(5,970)	(8,329)
Purchase of Rental Property Fixed Assets	(86,605)	-
Purchase of Investments	(88,427)	-
Proceeds from Investments	535,263	434,701
(Increase) Decrease in Development Costs	(69,362)	231,292
(Increase) Decrease in Loans Receivable	14,946	(4,000)
(Increase) Decrease in Deposits and Reserves	35,557	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	214,475	(645,692)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,467)	47,435
Cash and Cash Equivalents - Beginning of Year	195,202	147,767
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 181,735	\$ 195,202

See independent auditor's report and accompanying notes.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 1: Organization and 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. The Organization controls one hundred percent (100%) of the equity of the following entities, which were incorporated or organized under Maryland 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. When WSD does not exercise significant control over major operating and management decisions, but it exercises significant influence, it uses the equity method of accounting and does not consolidate BNLP for financial reporting purposes.

The balances of BNLP reflected in WSE are as of December 31, 2013, the entity's year end.

During 2013, WSE received a 99.9% limited partner interest in BNLP.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No. 958-205. Under FASB ASC No. 958-205, 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.

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.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

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 at 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 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, 2014 and 2013, 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 balance sheet 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.

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 the next five (5) years.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>	<u>Useful Life</u>
Land	\$ 106,631	\$ -	
Buildings	3,108,822	1,299,356	40 Years
Furniture and Equipment	106,578	51,817	5 to 7 Years
Total Property and Equipment	<u>3,322,031</u>	<u>1,351,173</u>	
Less: Accumulated Depreciation	<u>(783,965)</u>	<u>(52,252)</u>	
	<u>\$ 2,538,066</u>	<u>\$ 1,298,921</u>	

Depreciation expense was \$78,272 and \$15,118 for the years ended June 30, 2014 and 2013, respectively.

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.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

Deposits and Reserves – BNLP (Continued)

Under the terms of the loan agreement with DHCD, BNLP is required to establish a reserve for replacement accounts. 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 - BNLP

The Organization is currently involved in the development of two 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 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, 2014 and 2013, 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.

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 statement of activities as net assets released from restrictions.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

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 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 financial statements since taxable income or loss deduction and credits pass through to, and are reportable by, the partners on their respective tax returns.

Income Tax Uncertainties

The Organization has adopted FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Organization will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Organization continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Organization's evaluation on June 30, 2014 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2010 through 2012 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 financial statements.

Advertising

Advertising costs are charged to expense when incurred. Advertising expense for the years ended June 30, 2014 and 2013 amounted \$26,704 and \$44,546, respectively.

Program Descriptions

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

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

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

June 30, 2014 and 2013

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

Program Descriptions (Continued)

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 February 11, 2015, 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 and Fair Value Measurements

The Organization's investments are reported at fair value in the accompanying consolidated financial statements. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three (3) broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There were no Level 2 or Level 3 inputs.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 2: Investments (Continued)

Level 1 Fair Value Measurements

The fair values of common stocks, corporate bonds, and U.S. Government securities are based on the closing price reported on the active market where the individual securities are traded.

Assets measured at fair value on a recurring basis at June 30, 2014 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market \$	6,026	\$ -	\$ -	\$ 6,026
Corporate Stocks	645,581	-	-	645,581
Fixed Income	371,562	-	-	371,562
	<u>\$ 1,023,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,023,169</u>

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>

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

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Interest and Dividends	\$ 48,634	\$ 50,782
Realized Gains (Losses), Net	158,763	161,738
Unrealized Gains (Losses), Net	(4,593)	(67,411)
Management Fees	(12,837)	(7,267)
TOTAL	<u>\$ 189,967</u>	<u>\$ 137,842</u>

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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: 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, 2013, the balance on the mortgage was \$251,797. Interest expense for 2013 amounted to \$2,518.

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 of the loan and will

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

June 30, 2014 and 2013

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

accrue on each advance of the loan portion at the applicable federal rate in effect on the date of each advance. 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.

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, 2013, the outstanding balances amounted to \$450,000 under the HOME Loan and \$50,000 for the HOME Grant. Deferred interest expense for 2013 amounted to \$91,807 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: 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<u>Federal Government</u>		
Community Development Block Grant	\$ 104,210	\$ 106,288
Housing and Urban Development	18,102	27,081
Nation Foreclosure Mitigation Counseling	8,600	51,000
	<u>130,912</u>	<u>184,369</u>
<u>County Government</u>		
Baltimore County	45,000	41,277
	<u>45,000</u>	<u>41,277</u>
	<u><u>\$ 175,912</u></u>	<u><u>\$ 225,646</u></u>

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 and 2013 was \$870 and \$20,067, respectively.

Note 7: Grants Receivable

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

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Baltimore Community Foundation	\$ 44,821	\$ 33,978
State of Maryland	14,490	-
HomeFree	11,727	8,626
DHCD Housing Counseling Fund	85,625	78,150
Baltimore Development Corporation	6,250	31,250
Baltimore Neighborhood Collaborative	-	15,000
Healthy Neighborhoods, Inc.	23,730	32,800
Community Legacy	-	40,000
Baltimore Office of Promotion and Arts	44,375	-
NFMC	28,100	31,000
Mayor & City Council	37,212	44,807
CitiBank	500	500
Baltimore County Maryland	31,532	54,064
Housing and Urban Development	50,690	-
Chesapeake Bay Trust	-	5,582
Parks and People Foundation	25	-
Family League of Baltimore	7,500	-
	<u>\$ 387,597</u>	<u>\$ 375,757</u>

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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 February 1, 2015, and is guaranteed by an outside third party.

Note 9: 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 2013. The agreement has been approved by DHCD and remains in effect until termination by, or with the consent of, DHCD.

During 2013, the management agent erroneously charged BNLP for costs for Druid Hill, another managed property. At December 31, 2013, BNLP is owed \$4,000 from Druid Hill.

During 2012, the management agent erroneously charged BNLP for maintenance costs due from other managed properties. During 2013, the management agent repaid \$28,650 to BNLP.

Note 10: 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 refunded to DHCD.

Note 11: 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.

Note 12: Credit Risk

The Organization maintains cash balances at financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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.

Note 14: Change in Reporting

Due to the assignment of the limited partner interest in BNLP, the June 30, 2014 financial statements have been consolidated. WSD's interest in BNLP is no longer accounted for by the equity method on the Organization's financial statements.

Note 15: Restatement

During the current year, the Organization discovered that it was not appropriately accounting for its investment in WSD. Assets and net assets as of July 1, 2012 have been restated as follows:

	<u>As Originally Reported</u>	<u>Change</u>	<u>As Restated</u>
OTHER ASSETS			
Investment in Private Company	\$ -	<u>\$ 98,513</u>	\$ 98,513
NET INCREASE IN TOTAL ASSETS		<u>\$ 98,513</u>	
NET ASSETS	<u>\$ 2,148,907</u>	<u>\$ 98,513</u>	<u>\$ 2,247,420</u>
NET INCREASE IN TOTAL LIABILITIES AND NET ASSETS		<u>\$ 98,513</u>	

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 15: Restatement (Continued)

In addition, the following items from the consolidated statements of activities has been restated for the year ended June 30, 2013:

	<u>As Originally Reported</u>	<u>Change</u>	<u>As Restated</u>
OTHER INCOME			
Investment Loss from Private Company	\$ -	(\$ 95)	(\$ 95)
NET DECREASE IN NET ASSETS		<u>(\$ 95)</u>	
Total Net Assets – Beginning of Year	<u>\$ 2,148,907</u>	<u>\$ 98,513</u>	<u>\$ 2,247,420</u>
TOTAL NET ASSETS – END OF YEAR	<u>\$ 3,072,047</u>	<u>\$ 98,418</u>	<u>\$ 3,170,465</u>



Certified Public Accountant

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 AUDITOR'S REPORT ON THE CONSOLIDATING FINANCIAL STATEMENTS

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, 2014 and 2013, and our report thereon dated February 11, 2015 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 the schedules on pages 21 through 22 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

February 11, 2015
Millersville, Maryland

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2014

	<u>Southeast Community Development Corporation</u>	<u>Wolfe Street Enterprises, LLC</u>	<u>Wolfe Street Development Company</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 170,715	\$ 11,020	\$ -	\$ -	181,735
Accounts Receivable - Tenants (Net of Allowance for Doubtful Accounts of \$32,852)	-	22,163	-	-	22,163
Accounts Receivable - Other	-	4,000	-	-	4,000
Grants Receivable	387,597	-	-	-	387,597
Investments	1,023,169	-	-	-	1,023,169
Prepaid Expenses	7,132	4,284	-	-	11,416
Loan Receivable	19,054	-	-	-	19,054
Employee Loans Receivable	74	-	-	-	74
Tenants' Security Deposits	-	11,409	-	-	11,409
Mortgage Escrow Deposits and Funded Reserves	-	101,323	-	-	101,323
TOTAL CURRENT ASSETS	1,607,741	154,199	-	-	1,761,940
PROPERTY AND EQUIPMENT					
Land	-	106,631	-	-	106,631
Buildings	1,420,283	1,688,539	-	-	3,108,822
Furniture and Equipment	57,787	48,791	-	-	106,578
Less: Accumulated Depreciation	(90,458)	(693,507)	-	-	(783,965)
TOTAL PROPERTY AND EQUIPMENT	1,387,612	1,150,454	-	-	2,538,066
OTHER ASSETS					
Development Costs	69,362	-	-	-	69,362
Investments	(346,204)	-	98,312	247,892	-
Deferred Financing Fees (Net of Accumulated Amortization of \$7,867)	-	25,508	-	-	25,508
TOTAL OTHER ASSETS	(276,842)	25,508	98,312	247,892	94,870
TOTAL ASSETS	\$ 2,718,511	\$ 1,330,161	\$ 98,312	\$ 247,892	\$ 4,394,876

See independent auditor's report and accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As of June 30, 2014

	<u>Southeast Community Development Corporation</u>	<u>Wolfe Street Enterprises, LLC</u>	<u>Wolfe Street Development Company</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES					
Accounts Payable	\$ 51,764	\$ 15,453	\$ -	\$ -	67,217
Prepaid Rents	-	1,311	-	-	1,311
Accrued Salaries, Wages and Taxes	26,471	-	-	-	26,471
Fiscal Agent Liability	78,341	-	-	-	78,341
Tenants' Security Deposits (Contra)	-	11,601	-	-	11,601
TOTAL CURRENT LIABILITIES	156,576	28,365	-	-	184,941
LONG-TERM LIABILITIES (Rental Property)					
Mortgages Payable	-	701,797	-	-	701,797
Other Loans and Notes Payable	-	50,000	-	-	50,000
Accrued Interest Payable	-	896,203	-	-	896,203
TOTAL LONG-TERM LIABILITIES	-	1,648,000	-	-	1,648,000
TOTAL LIABILITIES	156,576	1,676,365	-	-	1,832,941
NET ASSETS/EQUITY					
Unrestricted Net Assets	2,561,935	-	-	-	2,561,935
Partners' Equity (Deficit)	-	(346,204)	98,312	247,892	-
TOTAL NET ASSETS/EQUITY (DEFICIT)	2,561,935	(346,204)	98,312	247,892	2,561,935
TOTAL LIABILITIES AND NET ASSETS	\$ 2,718,511	\$ 1,330,161	\$ 98,312	\$ 247,892	\$ 4,394,876

See independent auditor's report and accompanying notes

SOUTHEAST COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	Southeast Community Development Corporation	Wolfe Street Enterprises, LLC	Wolfe Street Development Company	Intercompany Eliminations	Total
SUPPORT AND REVENUES					
Grants from Government Agencies	\$ 175,912	\$ -	\$ -	\$ -	175,912
Other Grants	494,609	-	-	-	494,609
Contributions	1,905	-	-	-	1,905
Rental Income	8,485	132,442	-	-	140,927
Housing Counseling	8,714	-	-	-	8,714
Events Income	22,430	-	-	-	22,430
Interest Income	822	680	-	-	1,502
Income (Losses) from Investments	189,967	-	-	-	189,967
Miscellaneous Income	241	52	-	-	293
TOTAL SUPPORT AND REVENUES	903,085	133,174	-	-	1,036,259
EXPENSES					
Program Expenses					
Main Street	252,507	-	-	-	252,507
Housing Counseling	379,123	-	-	-	379,123
Healthy Neighborhood	327,896	239,084	-	-	566,980
Total Program Expenses	959,526	239,084	-	-	1,198,610
Management and General	107,467	-	-	-	107,467
TOTAL EXPENSES	1,066,993	239,084	-	-	1,306,077
OTHER INCOME (EXPENSES)					
Investment Income (Loss) From Private Company	(105,910)	-	(106)	106,016	-
INCOME (LOSS) BEFORE ASSIGNMENT OF NET ASSETS	(269,818)	(105,910)	(106)	106,016	(269,818)
Assignment of Net Assets	(240,294)	-	-	-	(240,294)
CHANGES IN NET ASSETS AND PARTNERS' EQUITY (DEFICIT)	(510,112)	(105,910)	(106)	106,016	(510,112)
Unrestricted Net Assets - Beginning of Year	3,170,465	-	-	-	3,170,465
Change in Reporting	(98,418)	-	98,418	(98,418)	(98,418)
Partners' Equity (Deficit) - Beginning of Year	-	(240,294)	-	240,294	-
UNRESTRICTED NET ASSETS AND PARTNERS' EQUITY (DEFICIT) - END OF YEAR	\$ 2,561,935	\$ (346,204)	\$ 98,312	\$ 247,892	\$ 2,561,935

See independent auditor's report and accompanying notes.



Certified Public Accountant

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 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, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 11, 2015.

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.

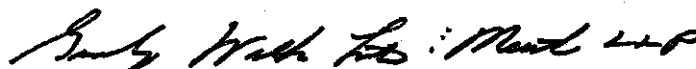
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

February 11, 2015
Millersville, Maryland