

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND
SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2013
(with comparative totals for 2012)**

***F.S. Taylor & Associates, P.C.
Certified Public Accountants
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FOR THE YEAR ENDED SEPTEMBER 30, 2013
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F. S. TAYLOR & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Marshall Heights Community Development Organization, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Marshall Heights Community Development Organization, Inc. and Subsidiaries (collectively, the Company), which comprise the statement of financial position as of September 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 the Marshall Heights Community Development Organization, Inc. as of September 30, 2013, and the changes in their net assets and their 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 the MHCDO's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating Statement of Financial Position on page 19 and the consolidating Statement of Activities on page 20 are presented for purposes of additional analysis of the financial statements rather than to present the financial position, the changes in net assets, and cash flows of the individual entities, and are not a required part of the financial statements. The 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

F. S. Taylor & Associates, P.C.

September 4, 2014

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012**

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	\$ 123,027	\$ 49,124
Contracts and grants receivable (Note 3)	28,394	70,018
Other current assets	2,940	3,303
Total current assets	<u>154,361</u>	<u>122,445</u>
Property and equipment, net (Note 5)	2,080,687	2,343,699
Other assets:		
Investments (Note 4)	577,790	630,998
Assets held for development (Note 6)	419,640	578,465
Note receivable from affiliate (Note 7)	275,000	289,446
Investments in subsidiaries	1,800	1,800
Other assets	1,375	5,017
Total other assets	<u>1,275,605</u>	<u>1,505,726</u>
 Total assets	 <u><u>\$ 3,510,654</u></u>	 <u><u>\$ 3,971,870</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 629,632	\$ 864,598
Lines of credit (Note 11)	162,000	457,617
Notes payable, current portion (Note 10)	388,399	447,777
Recoverable grants, current portion (Note 9)	50,000	50,000
Other current liabilities	32,822	22,972
Refundable advances (Note 3)	8,196	42,660
Total current liabilities	<u>1,271,049</u>	<u>1,885,624</u>
Long term debt, net of current portion:		
Notes payable (Note 10)	769,685	822,821
Recoverable grants (Note 9)	-	1,635,016
Total long-term debt liabilities	<u>769,685</u>	<u>2,457,837</u>
Total liabilities	<u>2,040,734</u>	<u>4,343,461</u>
 Net assets:		
Unrestricted	<u>1,469,920</u>	<u>(371,591)</u>
Total net assets	<u>1,469,920</u>	<u>(371,591)</u>
 Total liabilities and net assets	 <u><u>\$ 3,510,654</u></u>	 <u><u>\$ 3,971,870</u></u>

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

SUPPORT AND REVENUE

	2013	2012
Support:		
Contracts and grants - federal	\$ 93,750	\$ 518,910
Grant revenue (Note 9)	1,669,480	83,124
Total support	<u>1,763,230</u>	<u>602,034</u>
Revenue:		
Rental income	602,218	683,597
Service revenue	48,505	42,507
Development and management fees	8,488	106,013
Contributions and gifts - other	3,378	
Forgiveness of debt	126,931	
Gain on sale of assets (Note 5 and Note 6)	528,589	-
Other income	96,574	8,431
Total revenue	<u>1,414,682</u>	<u>840,548</u>
Total support and revenue	<u>3,177,912</u>	<u>1,442,582</u>

EXPENSES

Program services:		
Adult literacy	10,449	61,707
Workforce development	-	488,557
Transitional housing	581,168	401,587
Other programs	75,000	47,111
Total program services	<u>666,617</u>	<u>998,962</u>
Supporting services:		
General and administrative	669,784	608,745
Total expenses	<u>1,336,401</u>	<u>1,607,707</u>
Increase (decrease) in net assets	1,841,511	(165,125)
Net assets, beginning of year	<u>(371,591)</u>	<u>(206,466)</u>
Net assets, end of year	<u>\$ 1,469,920</u>	<u>\$ (371,591)</u>

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

	2013	2012
Increase (Decrease) in net assets	\$ 1,841,511	\$ (165,125)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Investment loss	(53,208)	
Amortization and depreciation	120,689	119,275
Loan forgiveness income	126,931	
Gain on sale of assets	528,589	
(Increase) decrease in operating assets:		
Note receivable	14,446	(14,446)
Grants receivable	41,624	33,115
Other current assets	363	4,653
Other assets	3,642	7,783
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(374,090)	33,756
Other current liabilities	9,850	(3,101)
Refundable advances	(34,464)	
Net cash provided by operating activities	<u>2,225,883</u>	<u>15,910</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of properties	(158,786)	
Disposition of asset held for development	(158,825)	
Net cash used in investing activities	<u>(317,611)</u>	<u>-</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on lines of credit	(295,617)	(56,464)
Payment/proceeds on notes payable	146,264	(46,740)
Recoverable grant extinguishment	(1,685,016)	-
Net cash used in investing activities	<u>(1,834,369)</u>	<u>(103,204)</u>
Net increase in cash and cash equivalents	73,903	(90,195)
Cash and cash equivalents, beginning of year	<u>49,124</u>	<u>139,319</u>
Cash and cash equivalents, end of year	<u>\$ 123,027</u>	<u>\$ 49,124</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	<u>\$ 61,786</u>	<u>\$ 27,588</u>
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SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013 (with comparative totals for 2012)**

	2013						
	Program services			Supporting Services			
	Adult Literacy	Transitional Housing	Other Programs	Total Program Services	General and Administration	Total	2012 Total
Salaries	\$ 3,476	\$ 135,296	\$ 36,520	\$ 175,292	\$ 93,805	\$ 269,097	\$ 636,614
Fringe benefits	347	12,820	7,304	20,471	33,868	54,339	120,451
Total personnel costs	3,823	148,116	43,824	195,763	127,673	323,436	757,065
Advertisement/Marketing							
Bank charges				-	2,800	2,800	2,640
Client and event cost				-	-	-	4,300
Conferences and Seminars				-	210	210	4,885
Consulting/outside services	6,626		14,176	20,802	118,929	139,731	172,031
Contributions/gifts, stipends and vehicle expenses				-	9,227	9,227	7,415
Postage and courier services				-	109	109	917
Depreciation expense		59,210		59,210	46,634	105,844	119,275
Equipment expense				-	25,835	25,835	15,611
Event costs				-	23,178	23,178	5,207
Insurance		28,444		28,444	6,597	35,041	68,945
Interest expense				-	61,786	61,786	27,588
License, filing, loan/grant and other fees				-	151	151	1,354
Material and supplies			4,500	4,500	2,238	6,738	16,285
Meeting cost				-		-	868
Miscellaneous expense				-	9,717	9,717	7,915
Payroll processing fee				-	4,207	4,207	5,141
Settlement and closing costs		94,131		94,131		94,131	
Project expenses		251,267		251,267		251,267	235,181
Space costs			12,500	12,500	21,145	33,645	32,979
Stipends				-	3,609	3,609	1,120
Subscription and dues				-	864	864	775
Taxes				-	33,369	33,369	10,633
Telephone/fax				-	37,195	37,195	40,585
Travel				-	1,267	1,267	12,289
Utilities				-	49,944	49,944	56,703
Bad debt expense				-	46,716	46,716	-
Total expenses	\$ 10,449	\$ 581,168	\$ 75,000	\$ 666,617	\$ 633,401	\$ 1,300,018	\$ 1,607,707

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – ORGANIZATION

Marshall Heights Community Development Organization, Inc. (MHCDO), a non-profit community based organization, was formed in 1978 to promote housing, business and human development within the Ward 7 community of the District of Columbia.

These consolidated financial statements include MHCDO and four wholly-owned subsidiaries: Greentree Corporation (Greentree), a non-profit organization; and for profit companies, East River Park, Inc. (ERP, Inc.), MHCDO Mayfair Mansion, Inc. (MMMI), and MHCDO Mayfair Mansions Condo, Inc. (MMMCI), (collectively, the Company). The subsidiaries are described below:

- Greentree Corporation (Greentree) is a non-profit organization incorporated in Washington, DC in 1996. Greentree was organized exclusively for charitable and educational purposes which conducts and supports activities of MHCDO. Greentree's primary activity is leasing its property located at 3732 Minnesota Avenue, NE, Washington, DC.
- East River Park, Inc. (ERP, Inc.) was incorporated in the District of Columbia in August 1983, and engages in commercial real estate development within the Ward 7 community of the District of Columbia. MHCDO's investment in ERP, Inc. is recorded at \$1,600.
- MHCDO Mayfair Mansion, Inc. (MMMI) was formed in May 2006. MMMI owns 35% of Mayfair Mansions Rental GP LLC. Mayfair Mansions Rental GP LLC is a .01% co-general partner in Mayfair Mansions Limited Partnership (MMLP) and supervises the property management of MMLP. MMLP was formed in the District of Columbia on April 26, 2006, with the purpose of acquiring and owning Mayfair Mansions Apartments, a multi-family rental property located at 3819 Jay Street, NE, Washington, DC. MHCDO's investment in MMMI is recorded at \$100.
- MHCDO Mayfair Mansions Condo, Inc. (MMMCI) was formed in May 2006 and is a wholly-owned subsidiary of MHCDO. MMMCI owns 65% of Mayfair Mansions Condo, LLC (MMCondo) and is the managing member. MMCondo was established for developing 160 units of Mayfair Mansion Apartments as affordable condominiums. However, on May 11, 2010, the District of Columbia Department of Housing and Community Development foreclosed on and later sold the 160 units of Mayfair Mansions Apartments. For the year ended September 30, 2011, MMCondo had no activities. MHCDO's investment in MMMCI is recorded at \$100.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recorded when the obligations are incurred.

Basis of presentation – In accordance with FASB ASC 958, MHCDO is required to report information regarding its financial position and activities according to three classes of net assets based upon the existence of donor imposed restrictions. A description of the three net asset categories follows:

- **Permanently Restricted** – the portion of the net assets resulting from contributions and other inflows of assets which use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Company pursuant to those stipulations.
- **Temporarily Restricted** – the portion of the net assets resulting from contributions or other inflows of assets which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Company pursuant to those stipulations.
- **Unrestricted** – the portion of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

At September 30, 2013, MHCDO does not have temporarily or permanently restricted net assets.

Principles of Consolidation - The financial statements of MHCDO are presented in a consolidated format with its subsidiaries, Greentree, ERP, Inc., MMMI, and MMMCI. In addition, the financial statements combine the activities of all entities and eliminate MHCDO's investment in the subsidiaries against the respective net assets. All inter-company transactions are eliminated in consolidation.

Income taxes – MHCDO and Greentree are exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code (Code). They are also exempt from state income taxes in the District of Columbia. Provision for income taxes related to the for profit subsidiaries has been considered as part of the net operating income/loss for the subsidiaries. The Company has adopted the accounting for uncertainty in income taxes as required by *Income Taxes (Topic 74)* of the FASB Accounting Standards Codification. The Company has analyzed its position, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax provision.

Cash and cash equivalents - Cash consists of funds held in demand deposit and savings accounts. The Company considers all certificates of deposits with original maturities of less than 90 days to be cash equivalents.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Financial instruments - Management of the Company believes the carrying amount of its financial instruments approximates fair value.

Property and equipment - Property and equipment valued at \$250 and above are capitalized at cost, if purchased, or fair market value, if donated, and depreciated using the straight-line method over their estimated useful lives of five years.

Assets held for development – The Company has real properties under that are held for development and are stated at cost, which is not in excess of net realizable value. Cost includes land, land development, and certain costs incurred during the pre-construction and construction period.

Risk of funding – The Company receives significant funding indirectly from the federal government passed through the District of Columbia government and non-profit organizations.

Contributions - Contributions are recorded when awarded or pledged and classified as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions whose restrictions are fulfilled in the same period are recorded as unrestricted support in the statement of activities. When a donor 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.

Contracts and grants – Contracts and grants receivable at fiscal yearend represents amounts earned but not received from the funding source; refundable advances represent amounts of the grant or contract received but not yet earned. Exchange transactions, revenue for grants and cost-reimbursable contracts with federal, state and local governments is recorded when the related costs are incurred. Revenue for fixed-rate contracts is recognized based on the number of units serviced at the negotiated rate per unit.

Investments – Investments in companies in which the Company has less than 20% interest are carried at cost. Investments in companies in which the Company has 20% to 50% interest are accounted for using the equity method of accounting; investments are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. Dividends received from those companies are included in investment income. Dividends received in excess of the Company's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment.

Bad debt expense – The Company uses the direct write-off method of accounting for uncollectible accounts receivable. During the year ended September 30, 2013, all receivables deemed uncollectible by management were written off.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Donated services and facilities – The Company receives substantial amounts of services contributed by the Board and others as well as contributed materials used toward the fulfillment of program objectives which have not been recorded in these financial statements.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among programs and supporting services benefited.

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

Subsequent events - In preparing these financial statements, management of the Company evaluated events and transactions that occurred after September 30, 2013 for potential recognition or disclosure in the financial statements. These events and transactions were evaluated through September 4, 2014, the date that the financial statements were available to be issued. Management did not identify any such events or transactions that would require disclosure.

NOTE 3 – CONTRACTS/GRANTS RECEIVABLE AND REFUNDABLE ADVANCES

Contracts and grants receivable deemed to be fully collectible by management, and refundable advances at September 30, were as follows:

Funding Source	2013		2012	
	Contracts and Grants Receivable	Refundable Advances	Contracts and Grants Receivable	Refundable Advances
United Planning Organization - CSBG	\$ 28,394	\$ -	\$ 57,640	\$ -
District of Columbia Department of Housing and Community Development - Lead Safety		8,196		8,196
NeighborhoodWorks America		-		4,464
District of Columbia Housing Authority - Family Enhancement Center		-		30,000
District of Columbia Office of the Superintendent of State Education			12,378	
Total amount	<u>\$ 28,394</u>	<u>\$ 8,196</u>	<u>\$ 70,018</u>	<u>\$ 42,660</u>

The refundable advance amount of \$8,196 as of September 30, 2013 was subsequently refunded to the District of Columbia Department of Housing and Community Development.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 20113

NOTE 4 – INVESTMENTS

At September 30, 2013, the Company had the following investments in for-profit entities:

East River Park, Inc. (ERP, Inc.), a wholly-owned subsidiary, was incorporated in August 1983, in the District of Columbia. ERP, Inc. engages in commercial real estate development with the Ward 7 community of the District of Columbia. For the years ended September 30, 2013 and 2012, MHCDO investment amount decreased to \$-0- for ERP, Inc. \$ -

MMMI owns 35% of Mayfair Mansions Rental GP, LLC. Mayfair Mansions Rental GP, LLC is a .01% co-general partner in Mayfair Mansions Limited Partnership (MMLP) and supervises the property management of MMLP. MMLP was formed in the District of Columbia on April 26, 2006, with the purpose of acquiring and owning Mayfair Mansions Apartments, a multi-family rental property located at 3819 Jay Street, NE, Washington, DC. \$ -

MMCI owns 35% of Mayfair Mansions Condo, LLC (MMCondo) and is the managing member. MMCondo was established for developing 160 units of Mayfair Mansion Apartments as affordable condominiums. \$ -

On June 29, 1995, through a joint venture with a commercial real estate developer, MHCDO established Greenway Apartments Limited Partnership (GALP). MHCDO has a 50% ownership interest in GALP. GALP was formed to provide working capital to redevelop an apartment complex into home ownership and rental units. Through a recoverable grant of \$1,500,000 from the Cafritz Foundation refer to Note 9, the investment of \$1,500,000 was recorded at cost. MHCDO accounts for this investment under the equity method of accounting. During the years ended September 30, 2013 and 2012, MHCDO reported a GALP loss of \$ -0- and \$3,303 for the partnership respectively \$ 578,581

MHCDO is a member in 2525 Minnesota Avenue Limited Liability Company, which was formed on September 20, 2000. MHCDO has a 33% ownership interest in 2525 Minnesota Avenue, LLC. Accordingly, this investment is accounted for under the equity method of accounting. For the years ended September 30, 2013 and 2012, MHCDO reported no income from this entity. (1,791)

4th Street Vistas, LLC was formed January 16, 2007 in Delaware for the purpose of developing 98 affordable housing units known as Fourth Street Vistas. MHCDO has 1% ownership interest. MHCDO also has a non-interest bearing promissory note of \$275,000 from 4th Street Vistas, LLC which is included in the financial statements. 1,000

Total

\$ 577,790

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	<u>2013</u>	<u>2012</u>
<u>MHCDO</u>		
Land	\$ 254,629	\$ 254,629
Buildings	3,241,623	3,607,615
Furniture and equipment	582,444	579,913
Equipment under capital lease obligation	183,000	183,000
Vehicle	54,800	54,800
Total	4,316,496	4,679,957
Less: Accumulated depreciation	(2,591,883)	(2,707,177)
Property and equipment, net	<u>\$ 1,724,613</u>	<u>\$ 1,972,780</u>
 <u>Greentree Corporation</u>		
Land and building:		
3732 Minnesota Ave., N.E.	\$ 511,135	\$ 511,135
Less: accumulated depreciation	(155,061)	(140,216)
Greentree Corporation property, net	<u>\$ 356,074.00</u>	<u>\$ 370,919</u>
 Total property and equipment, net	<u>\$ 2,080,687</u>	<u>\$ 2,343,699</u>

Depreciation expense was \$120,689 and \$119,275 for the years ended September 30, 2013 and 2012, respectively.

Sale of assets

On May 30, 2013, MHCDO sold its property located at 55Th Street, NE in Washington, D.C. for \$430,000. A gain of \$337,103 was recognized as a result of the sale, and is included in the statement of activities as a gain on sale of assets.

On June 19, 2013, MHCDO sold its property located at 1449 Olive Street, NE in Washington, D.C. for \$230,000. A gain of \$191,486 was recognized as a result of the sale, and is included in the statement of activities as a gain on sale of assets.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 6 – ASSETS HELD FOR DEVELOPMENT

Assets held for development at September 30, 2013 and 2012 were \$419,640 and \$578,465, respectively, and included certain project costs such as predevelopment activities, land and land development.

The assets held for development at September 30, are as follows:

	2013	2012
D Street Properties	\$ -	\$ 158,825
Hilltop Terrace	394,360	394,360
4405 Sheriff Road, NE	25,280	25,280
Total	\$ 419,640	\$ 578,465

On November 2, 2012, MHCDO sold its properties located at D Street Properties, SE for \$160,000. A gain of \$1,175 was recognized as a result of the sale, and is included in the statement of activities as a gain on sale of assets.

NOTE 7 – RELATED PARTY TRANSACTIONS

Note receivable from affiliate

MHCDO has a non-interest bearing promissory note from 4th Street Vistas, LLC at September 30, 2013 and 2012 for \$275,000. The note is payable the earlier of December 31, 2009 or the date of certain financing of the Fourth Street Vistas project. MHCDO has a 1% ownership interest in 4th Street Vistas, LLC. As of September 30, 2013, the note had not yet been paid.

Other

- During the year ended September 30, 1998, MHCDO received land located at 3939 Benning Road, N.E., Washington, DC, donated by ERP, Inc. The fair market value of the land donation was recorded at \$560,732. The land was used to develop MHCDO headquarters.
- At September 30, 2013 and 2012, MHCDO owed \$41,685 and \$60,579, respectively, to Greentree Corporation and \$5,000 to ERP, Inc. The payable recorded by MHCDO and the related receivable recorded by Greentree Corporation and ERP, Inc. were eliminated in consolidation.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 8 – PENSION PLAN

MHCDO maintains an IRC 403(b) tax Deferred Annuity Plan (the Plan) for its employees. Employees are eligible to participate on the first entry date or following the completion of 90 days of service. Employees may contribute up to the percentage of annual limits of IRC Sections 403 (b), 402 (g) and 415. Contributions are invested in individual flexible premium deferred annuity contracts issued by an insurance company. No contributions were made to the Plan by the Company during the year ended September 30, 2013 and 2012.

NOTE 9 – GRANT REVENUE

Recoverable grants were received to support various development projects. At September 30, 2013, the Company had recoverable grants as follows:

	<u>2013</u>	<u>2012</u>
Unsecured, non-interest bearing recoverable grant obtained from LISC for development of projects in Ward 7 in NE Washington. The grant is payable on the sale of the sixth home in Phase One of the development or of the Hilltop Terrace Project.	\$ 50,000	\$ 50,000

Unsecured, non-interest bearing recoverable grant payable to the Cafritz Foundation in the original amount of \$1,500,000 on June 22, 1995. The recoverable grant was for the renovation of Greenway Apartments, located in NE Washington, DC. The balance is to be repaid out of income and capital distributions to MHCDO from Greenway Apartments LP. As of September, 30, 2013, Cafritz Foundation converted the outstanding balance into a grant and is recorded on statement of activities as grant revenue.	-	1,190,016
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Unsecured, non-interest bearing recoverable grant payable to Cafritz Foundation in the original amount of \$890,000. The note was for the acquisition and demolition of a portion of Phase I of Greenway Apartments (now known as Meadow Greens Apartments), located in NE Washington, DC. Greentree transferred title to 16 lots through this grant on April 27, 1998. The land was recorded at cost for \$890,000 and was sold after construction was completed. \$445,000 of this recoverable grant was reclassified as a grant during the year ended September 30, 2002. The balance is to be repaid from the excess of surplus cash generated from Greenway Apartment LP, after the repayment in full of the first recoverable grant from Cafritz. As of September 30, 2013, Cafritz Foundation converted the outstanding balance into a grant and is recorded on the statement of activities as grant revenue.	<u>-</u>	<u>445,000</u>
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Total recoverable grants	50,000	1,685,016
Less: current portion	(50,000)	(50,000)
Long-term portion	<u>\$ -</u>	<u>\$ 1,635,016</u>

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 10 – NOTES PAYABLE

At September 30, notes payable were as follows:

	<u>2013</u>	<u>2012</u>
MHCDO had a secured, non-interest bearing loan payable due September 20, 2017 to the Enterprise Foundation. The loan was collateralized by the first deed of trust on property located at 1449 Olive Street NE, Washington, DC and on assignment of leases, rents and profits. The property was sold and the note balance was liquidated as of September 30, 2013.	\$ -	\$ 19,564
MHCDO has a secured, 1% note payable to the Enterprise Foundation in the original amount of \$500,000. The loan, collateralized by the property located at 4425 Nannie Helen Burroughs Avenue N.E., Washington, DC, is non-recourse to the borrower. The note, dated February 4, 1995, is due February 14, 2022. Monthly installments of interest and principal in the amount of \$1,884 were made towards the loan up to February 2002 and only monthly principal payments of \$1,167 are required thereafter. A replacement reserve required by the agreement has not been funded for fiscal year ended September 30, 2013. Restricted cash held is \$-0- at September 30, 2013 and 2012, respectively.	377,018	391,018
Greentree has a secured, 7% note payable to the Hospitality Community Federal Credit Union in the original amount of \$450,000. The loan is collateralized by the property located at 3732 Minnesota Avenue N.E., Washington, DC. The note, dated October 2, 2008, was due October 2, 2013, but was extended through December 5, 2015. Monthly installments of interest and principal in the amount of \$2,994 are required under the agreement.	424,724	445,807
MHCDO has a secured, 7.5% note payable to the Citibank CDC Tax Credit Limited Partnership III. The loan is collateralized by a second deed of trust on property located at 3939 Benning Road, N.E., Washington, DC. Interest only payments shall be made quarterly following June 26, 1998, the date of the note. The unpaid principal balance of the note was due and payable on July 1, 2008. The loan proceeds were used to construct MHCDO's headquarters. The note is currently in default and interest is presently accruing at the default interest rate of 12.5%. At September 30, 2013, the principal note balance is \$356,342 and the accrued interest is \$291,321. A forbearance agreement extended the maturity date to June 1, 2014 when the entire balance is due. Management is currently negotiating with the note holder for a waiver of the accrued interest and penalties and a new forbearance agreement.	356,342	388,344
In September 2011, MHCDO entered into a repayment agreement with SunTrust Bank for a subsidy previously provided to MHCDO in connection with a proposed 29-unit transitional housing project. MHCDO was required to pay monthly, principal-only payments of \$2,587 through July 2013. The outstanding balance was liquidated as of September 30, 2013.	-	25,865
Total notes payable	1,158,084	1,270,598
Less current portion	(388,399)	(447,777)
Note payable, net of current portion	<u>\$ 769,685</u>	<u>\$ 822,821</u>

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 10 – NOTES PAYABLE -(CONTINUED)

Principal maturities of notes payable were as follows as of September 30:

2014	\$	388,399
2015		402,116
2016		14,004
2017		14,004
2018		14,004
After 2018		325,557
	\$	<u>1,158,084</u>

NOTE 11 – LINES OF CREDIT

At September 30, the Company had the following line of credit arrangements:

	<u>2013</u>	<u>2012</u>
During the year ended September 30, 2007, MHCDO received a unsecured loan for \$262,000 from the Unitarian Universalist and Affordable Housing Corp. This loan bears interest at 8% with quarterly payment of interest only and is payable on December 31, 2009. As of September 30, 2013 and 2012, respectively, the outstanding balance was still unpaid. No interest has been accrued. Management could not locate the non profit	\$ 162,000	\$ 162,000
Unsecured line of credit payable to Citibank in the original amount \$160,000. Interest secured was at prime plus 2%. The principal along with any unpaid interest was due in full at maturity on December 14, 2009. As of September 30, 2013, the loan was liquidated.	-	66,604
Secured, 6.3% line of credit to Local Initiatives Support Corporation. The line is collateralized by a first deed of trust on D street lots. The loan requires monthly interest and principal payments of \$3,155 and was due December 1, 2009. As of September 30, 2013, the loan was settled for \$160,000 resulting in forgiveness of debt of \$69,013.	-	<u>229,013</u>
Total	<u>\$ 162,000</u>	<u>\$ 457,617</u>

SUPPLEMENTAL INFORMATION

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.								
AND SUBSIDIARIES								
CONSOLIDATING STATEMENT OF FINANCIAL POSITION								
SEPTEMBER 30, 2013 (with comparative totals for 2012)								
	2013							
	Heights Community Development Organization, Inc.	East River Park, Inc.	Greentree Corporatio n	MHCDO Mayfair Mansion, Inc.	MHCDO Mayfair Mansions Condo, Inc.	Eliminatin g Entries	Total	2012 Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 122,915	\$ -	\$ 112	\$ -			\$ 123,027	\$ 49,124
Contracts and grants receivable (Note 3)	28,394						28,394	70,018
Due from affiliate		5,000	41,685			(46,685)	-	-
Other current assets	2,940						2,940	3,303
Total current assets	154,249	5,000	41,797			(46,685)	154,361	122,445
Property and equipment, net	1,724,613		356,074				2,080,687	2,343,699
Other assets:								
Investments (Note 4)	577,790						577,790	630,998
Assets held for development (Note 6)	419,640						419,640	578,465
Note receivable from affiliate (Note 7)	275,000						275,000	289,446
Investments in subsidiaries	1,800						1,800	1,800
Other assets	1,375	1,600		100	100	(1,800)	1,375	5,017
Total other assets	1,275,605	1,600	-	100	100	(1,800)	1,275,605	1,505,726
Total assets	\$ 3,154,468	\$ 6,600	\$ 397,871	\$ 100	\$ 100	\$ (48,485)	\$ 3,510,654	\$ 3,971,870
LIABILITIES AND NET ASSETS AND OWNER'S EQUITY								
Current liabilities:								
Accounts payable and accrued expenses	\$ 629,632	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 629,632	\$ 864,598
Lines of credit (Note 10)	162,000						162,000	457,617
Notes payable, current portion (Note 9)	365,791		22,608				388,399	447,777
Recoverable grants, current portion (Note 11)	50,000						50,000	50,000
Advances from affiliates	46,685					(46,685)	-	
Other current liabilities	10,297		22,525				32,822	22,972
Refundable advances (Note 3)	8,196						8,196	42,660
Total current liabilities	1,272,601		45,133			(46,685)	1,271,049	1,885,624
Long term debt, net of current portion:								
Notes payable (Note 9)	367,569		402,116				769,685	822,821
Recoverable grants (Note11)	-							1,635,016
Total long-term debt liabilities	367,569		402,116				769,685	2,457,837
Total liabilities	1,640,170		447,249			(46,685)	2,040,734	4,343,461
Net assets and owner's equity:								
Unrestricted net assets (deficit)	1,514,298		(49,378)				1,464,920	(376,591)
Owner's equity		6,600		100	100	(1,800)	5,000	5,000
Total net (deficit) assets and owner's equity	1,514,298	6,600	(49,378)	100	100	(1,800)	1,469,920	(371,591)
Total liabilities and net assets and owner's equity	\$ 3,154,468	\$ 6,600	\$ 397,871	\$ 100	\$ 100	\$ (48,485)	3,510,654	\$ 3,971,870
SEE NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS.								

**MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013 (with comparative totals for 2012)**

	2013							2012
	Marshall Heights Community Development Organization, Inc.	East River Park, Inc.	Greentree Corporation	MHCDO Mayfair Mansion, Inc.	MHCDO Mayfair Mansions Condo, Inc.	Eliminating Entries	Total	Total
<u>SUPPORT AND REVENUE</u>								
Support:								
Contracts and grants - federal	\$ 93,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,750	\$ 518,910
Grant revenue	1,669,480						1,669,480	83,124
Total support	1,763,230	-	-	-	-	-	1,763,230	602,034
Revenue:								
Rental income	602,218						602,218	683,597
Service revenue	48,505						48,505	42,507
Development and management fees (Note 7)	8,488						8,488	106,013
Contributions and gifts - other	3,378						3,378	
Forgiveness of debt	126,931						126,931	
Gain on sale of assets (Note 7 and Note 6)	528,589						528,589	
Other income	96,574						96,574	8,431
Total revenue	1,414,682	-	-	-	-	-	1,414,682	840,548
Total support and revenue	3,177,912	-	-	-	-	-	3,177,912	1,442,582
<u>EXPENSES</u>								
Program services:								
Adult literacy	10,449						10,449	61,707
Workforce development	-						-	488,557
Transitional housing	581,168						581,168	401,587
Other programs	75,000						75,000	47,111
	666,617		-				666,617	998,962
Supporting services:								
General and administrative	633,401		36,383				669,784	608,745
Total expenses	1,300,018	-	36,383	-	-	-	1,336,401	1,607,707
Increase (decrease) in net assets	1,877,894	-	(36,383)	-	-	-	1,841,511	(165,125)
Net assets (deficit) and owner's equity, beginning of year	(363,596)	6,600	(12,995)	100	100	(1,800)	(371,591)	(206,466)
Net assets (deficit) and owner's equity, end of year	\$ 1,514,298	\$ 6,600	\$ (49,378)	\$ 100	\$ 100	\$ (1,800)	\$ 1,469,920	\$ (371,591)

SEE NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS.