

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
(Parent – Entity Only)

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
(with comparative totals for 2014)

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying parent-entity only financial statements of the Marshall Heights Community Development Organization, Inc. ("MHCDO"), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities 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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note 2 to the parent-entity only financial statements, MHCDO's interest in and control of its subsidiaries and affiliate, East River Park, Inc., MHCDO Mayfair Mansions, Inc., MHCDO Mayfair Mansions Condo, Inc. and Greentree Corporation have not been consolidated in these financial statements. In our opinion, accounting principles generally accepted in the United States of America (GAAP) require that all majority-owned subsidiaries and the controlled affiliate be accounted for as consolidated subsidiaries. Financial information for the subsidiaries and affiliate was not available as of September 30, 2015, and therefore the financial impact on the financial statements of MHCDO (the parent) was not ascertainable and could not be presented in accordance with GAAP.

Qualified Opinion

In our opinion, except for the effects of not consolidating all majority-owned subsidiaries and the controlled affiliate, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MHCDO as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the MHCDO's 2014 financial statements, and we expressed an qualified audit opinion on those Parent- Entity Only audited financial statements in our report dated October 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, for MHCDO (parent-entity only), is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the parent-entity only financial statements as a whole. The supplemental statement of functional expenses on page 6 is presented for purposes of additional analysis of the parent-entity only financial statements and is not a required part of the parent-entity only financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the parent-entity only financial statements. The information has been subjected to the auditing procedures applied in the audit of the parent-entity only financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the parent-entity only financial statements or to the parent-entity only 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 parent-entity only financial statements as a whole.

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

September 29, 2016

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 12,985	\$ 64,205
Contracts and grants receivable (Note 3)	13,353	20,945
Other current assets	2,940	2,940
Total current assets	<u>29,278</u>	<u>88,090</u>
Property and equipment, net (Note 4)	1,602,559	1,618,769
Other assets:		
Investments (Note 5)	605,030	608,481
Assets held for development (Note 6)	419,640	419,640
Note receivable from affiliate (Note 7)	275,000	275,000
Investments in subsidiaries (Note 8)	1,800	1,800
Other assets	8,875	1,375
Total other assets	<u>1,310,345</u>	<u>1,306,296</u>
Total assets	<u><u>\$ 2,942,182</u></u>	<u><u>\$ 3,013,155</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 322,292	\$ 648,655
Real estate taxes payable (Note 6)	419,640	419,640
Notes payable, current portion (Note 10)	25,008	294,542
Advances from affiliates (Note 7)	111,851	105,651
Other payable (Note 11)	162,000	162,000
Other current liabilities	14,893	14,053
Total current liabilities	<u>1,055,684</u>	<u>1,644,541</u>
Long term debt, net of current portion:		
Notes payable (Note 10)	<u>571,677</u>	<u>318,506</u>
Total long-term debt liabilities	<u>571,677</u>	<u>318,506</u>
Total liabilities	<u>1,627,361</u>	<u>1,963,047</u>
Net assets:		
Unrestricted	<u>1,314,821</u>	<u>1,050,108</u>
Total net assets	<u>1,314,821</u>	<u>1,050,108</u>
Total liabilities and net assets	<u><u>\$ 2,942,182</u></u>	<u><u>\$ 3,013,155</u></u>

SEE NOTE TO THE FINANCIAL STATEMENTS.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>SUPPORT AND REVENUE</u>		
Support:		
Contracts and grants - other	\$ 74,506	\$ 75,000
Other income		1,791
Total support	<u>74,506</u>	<u>76,791</u>
Revenue:		
Rental income	626,166	610,230
Service revenue	45,113	45,246
Forgiveness of debt (Note 13)	316,631	50,000
Gain on sale of assets	(1,660)	-
Other income	107,740	100,488
Total revenue	<u>1,093,990</u>	<u>805,964</u>
Total support and revenue	<u>1,168,496</u>	<u>882,755</u>
<u>EXPENSES</u>		
Program services:		
Transitional housing	394,472	424,645
Other programs	66,114	92,090
	<u>460,586</u>	<u>516,735</u>
Supporting services:		
General and administrative	443,197	830,210
Total expenses	<u>903,783</u>	<u>1,346,945</u>
Increase (decrease) in net assets	264,713	(464,190)
Net assets, beginning of year	<u>1,050,108</u>	<u>1,514,298</u>
Net assets, end of year	<u>\$ 1,314,821</u>	<u>\$ 1,050,108</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	\$ 264,713	\$ (464,190)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Investment (income)/loss	3,451	(30,691)
Amortization and depreciation	105,844	105,844
Loan forgiveness income	(316,631)	(50,000)
Decrease in operating assets:		
Grants receivable	7,592	7,449
Other assets	(7,500)	287,802
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(326,363)	19,023
Real estate taxes payable	-	419,640
Advances from affiliates	6,200	58,966
Other current liabilities	840	3,756
Refundable advances	-	(8,196)
Net cash provided by (used in) operating activities	<u>(261,854)</u>	<u>349,403</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Disposition of furniture, equipment and other assets	(89,633)	-
Net cash provided by (used in) investing activities	<u>(89,633)</u>	<u>-</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds on notes payable	275,000	-
Payment/proceeds on notes payable	(27,014)	(120,312)
Net liquidation of debt	52,281	-
Net cash (used in) provided by financing activities	<u>300,267</u>	<u>(120,312)</u>
Net increase (decrease) in cash and cash equivalents	(51,220)	(58,711)
Cash and cash equivalents, beginning of year	64,205	122,916
Cash and cash equivalents, end of year	<u>\$ 12,985</u>	<u>\$ 64,205</u>
<u>SUPPLEMENTAL CASH FLOW INFORMATION</u>		
Interest paid	<u>\$ 1,470</u>	<u>\$ -</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015 (with comparative totals for 2014)

	2015					Supporting		2014
						Services		
	Transitional Housing	Other Programs	Total Program Services	General and Administration	Total			
Salaries	\$ 158,658	\$ 49,867	\$ 208,525	\$ 89,449	\$ 297,974	\$ 300,577		
Fringe benefits	14,679	13,647	28,326	29,677	58,003	48,385		
Other Direct Expense								
Advertisement/marketing			-	13	13	25		
Bank charges			-	1,733	1,733	2,278		
Conferences and seminars			-	210	210	-		
Consulting/outside services			-	85,791	85,791	81,583		
Postage and courier services			-	359	359	108		
Depreciation expense			-	105,844	105,844	105,844		
Equipment expense			-	105	105	18,763		
Event costs			-	650	650	2,530		
Insurance			-	22,896	22,896	16,975		
Interest expense			-	1,470	1,470	-		
License, filing, loan/grant and other fees			-	4,794	4,794	1,989		
Material and supplies		2,601	2,601	4,376	6,977	7,230		
Meeting cost			-	56	56	850		
Miscellaneous expense			-	49	49	83		
Payroll processing fee			-	4,369	4,369	4,027		
Settlement and closing costs			-	18,118	18,118	-		
Project expenses	221,135		221,135	-	221,135	243,136		
Space costs			-	15,521	15,521	19,953		
Stipends			-	90	90	1,592		
Telephone/fax			-	24,558	24,558	36,099		
Travel			-	643	643	-		
Utilities			-	32,233	32,233	28,248		
Vehicle maintenance, repair and registration			-	192	192	380		
Bad debt expense			-	-	-	6,650		
Total expenses	\$ 394,472	\$ 66,114	\$ 460,586	\$ 443,197	\$ 903,783	\$ 927,303		

SEE NOTES TO THE FINANCIAL STATEMENTS.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Parent- entity only presentation - These financial statements were prepared on a parent-entity only basis for the use of the Board of Directors and management of MHCDO. For purposes of this presentation, MHCDO's interest in the control of its for-profit subsidiaries, East River Park, Inc., MHCDO Mayfair Mansions, Inc. and MHCDO Mayfair Mansions Condo, Inc., as well as the assets and liabilities of its non-profit affiliate Greentree Corporation, are not being presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of accounting - MHCDO prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recorded when 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 MHCDO 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 MHCDO 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, 2015, MHCDO does not have temporarily or permanently restricted net assets.

Income taxes - MHCDO is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code (Code). It is also exempt from state income taxes in the District of Columbia. MHCDO has adopted the accounting for uncertainty in income taxes as required by *Income Taxes (Topic 74)* of the FASB Accounting Standards Codification. MHCDO has analyzed its position, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax provision.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

Cash and cash equivalents – For the purpose of presentation in MHCDO's statement of cash flows, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they represent insignificant risk of changes in value due to changing interest rates, typically with original maturities of less than 90 days.

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

Property and equipment – Purchased property and equipment are stated at cost. Donated property and equipment are stated at fair market value at the time of donation. MHCDO used the straight-line method of depreciation over the estimated useful lives of the assets ranging from five years for furniture and equipment to thirty years for real property. Assets which cost in excess of \$250 are capitalized.

Assets held for development – MHCDO has real properties 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.

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 year end represents amounts earned but not received from the funding source; refundable advances represent amounts of the grant or contract received but not yet earned. For 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 MHCDO has less than 20% interest are carried at cost. Investments in companies in which the MHCDO has 20% to 50% interest are accounted for using the equity method of accounting; investments are carried at cost, adjusted for MHCDO's proportionate share of their undistributed earnings or losses. Dividends received from those companies are included in investment income. Dividends received in excess of MHCDO's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

Bad debt expense – Accounts receivable are recorded at the amount management expects to collect on balances outstanding at year end. Management closely monitors balances and writes off, as of year-end, any balances that are considered to be uncollectible. MHCDO uses the direct write-off method of accounting for uncollectible accounts receivable. The difference between MHCDO using the direct write-off method and MHCDO having used the allowance for doubtful accounts is immaterial.

Donated services and facilities - MHCDO 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 services to 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 MHCDO evaluated events and transactions that occurred after September 30, 2015, for potential recognition or disclosure in the financial statements. These events and transactions were evaluated through September 29, 2016, the date that the financial statements were available to be issued.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 – CONTRACTS/GRANTS RECEIVABLE AND REFUNDABLE ADVANCES

At September 30, 2015 and 2014, MHCDO has a grant receivable of \$13,353 and \$20,945, respectively, from the District of Columbia Department of Housing and Community Development (Lead).

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land - 3939 Benning Road	\$ 505,740	\$ 505,740
Land - SRO Transitional Housing	89,635	89,635
Building - 3939 Benning Road	1,361,348	1,273,515
Building - SRO Transitional Housing	1,539,529	1,627,361
Furniture and equipment	542,565	582,444
Equipment under capital lease obligation	183,000	183,000
Vehicle	54,801	54,801
Total	<u>4,276,618</u>	<u>4,316,496</u>
Less: Accumulated depreciation	<u>(2,674,059)</u>	<u>(2,697,727)</u>
Property and equipment, net	<u>\$ 1,602,559</u>	<u>\$ 1,618,769</u>

Depreciation expense was \$105,844 for the years ended September 30, 2015 and 2014.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5 – INVESTMENTS

At September 30, 2015 and 2014, MHCDO had the following investments in for-profit entities:

	<u>2015</u>	<u>2014</u>
On June 29, 1995, through a joint venture with a commercial real estate developer, MHCDO established Greenway Development Limited Partnership (GDLP). MHCDO has a 50% ownership interest in GDLP. GDLP 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, 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, 2015 and 2014, MHCDO reported a GDLP loss of (\$1,660) and (\$850), respectively, for the partnership.	\$ 604,030	\$ 607,481
MDCDO 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. During the years ended September 30, 2015 and 2014, MHCDO reported no activity.		
4th Street Vistas, LLC was formed January 16, 2007 in Delaware for the purpose of developing 98 affordable units known as 4th Street Vistas. MHCDO has 1% ownership interest. MHCDO has recorded a non-interest bearing promissory note of \$275,000 from 4th Street Vistas, LLC which is included in the financial statements. MHCDO also has recourse debt of \$275,000 from 4th Street Vistas, LLC reported on the partnership return.	1,000 <u>\$ 605,030</u>	1,000 <u>\$ 608,481</u>

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 – ASSETS HELD FOR DEVELOPMENT

Assets held for development at September 30, 2015 and 2014 was \$419,640, and included certain project costs such as predevelopment activities, land and land development.

The assets held for development at September 30, 2015 and 2014, are listed as follows:

	<u>2015</u>	<u>2014</u>
Hilltop Terrace	\$ 394,360	\$ 394,360
4405 Sheriff Road, NE	25,280	25,280
Total	<u>\$ 419,640</u>	<u>\$ 419,640</u>

At September 30, 2015, these properties were subject to liens for unpaid property taxes and real estate taxes payable of \$419,640. During FY 2015, the properties were auctioned and sold through District of Columbia tax sales. Due to certain District of Columbia Government covenants related to these properties, MHCDO and the District of Columbia Department of Housing and Community Development are in the process of determining outcomes for the properties.

NOTE 7 – RELATED PARTY TRANSACTIONS

Note receivable from affiliate

MHCDO has recorded a non-interest bearing promissory note from 4th Street Vistas, LLC at September 30, 2015 and 2014 for \$275,000. The note is due 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, 2015, the note had not yet been paid. In addition, MHCDO has a recourse loan of \$275,000 reported on the partnership tax return.

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, 2015 and 2014, MHCDO owed \$111,851 and \$105,651, respectively, to Greentree Corporation and \$5,000 to ERP, Inc.

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 – INVESTMENTS IN SUBSIDIARIES

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, 2015 and 2014, MHCDO recorded no income/loss for ERP, Inc.

<u>2015</u>	<u>2014</u>
\$ 1,600	\$ 1,600

MHCDO Mayfair Mansion, Inc. (MMMI) was formed May 2006 and is a wholly-owned subsidiary of MHCDO. 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. For the years ended September 30, 2015 and 2014, MHCDO recorded no income/loss for MMMI.

100	100
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MHCDO Mayfair Mansions Condo, Inc. (MMMCI) was formed in May 2006 and is a wholly-owned subsidiary of MHCDO. MMMCI 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. For the years ended September 30, 2015 and 2014, MHCDO record no income/loss for MMMCI.

<u>100</u>	<u>100</u>
\$ 1,800	\$ 1,800

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 – NOTES PAYABLE

At September 30, 2015 and 2014, notes payable were as follows:

MHCDO has a secured, 7.5% note payable to the Citibank CDC Tax Credit Limited Partnership III ("Citibank CDCTCLP"). 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 was liquidated and replaced with a note from United Bank for \$250,000. At September 30, 2015 and 2014, the principal note balance was \$-0- and \$275,342, respectively, and accrued interest was \$-0- and \$316,631, respectively. During FY 2015, Citibank CDCTCLP forgave \$316,631 of accrued interest which is reported as loan forgiveness income on the statement of activities.

2015	2014
\$ -	\$ 275,342

On August 11, 2015, MHCDO has secured a note of \$275,000 with United Bank which was used to liquidate a first deed or trust note with Citibank CDC and a line of credit of \$100,000 which is used as working capital. The note is collateralized by a first deed of trust on 3939 Benning Road NE (the office building). The note will bear interest until the 7th anniversary date at a fixed rate of 5 1/2%. The note will bear interest after the 7th anniversary until maturity at a fixed annual rate equal to the three year interest rate of FHLBA prevailing plus 3%. The note is amortized over 25 years and repaid using that amortization. The line of credit (LOC) will bear interest rate of prime rate plus 1% until maturity on August 1, 2025. The balance on the note payable at September 30, 2015 is \$269,651. The line of credit balance is \$-0- at September 30, 2015.

269,651

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, 2015. Restricted cash held was \$-0- at September 30, 2015 and 2014.

Total notes payable
Less current portion
Note payable, net of current portion

327,034	337,706
596,685	613,048
(25,008)	(294,542)
\$ 571,677	\$ 318,506

MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 10- NOTES PAYABLE (CONTINUED)

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

2016	\$	25,008
2017		25,758
2018		26,531
2019		27,327
2020		28,147
After 2019		463,914
	\$	<u>596,685</u>

NOTE 11 - OTHER PAYABLE

At September 30, 2015 and 2014, MHCDO has recorded a payable balance of \$162,000. In FY 2007, MHCDO received an unsecured loan of \$262,000 from the Unitarian Universalist and Affordable Housing Corp (UUAHC). The loan bears interest at 8% with quarterly payment of interest only and was due on December 31, 2009. At September 30, 2015 and 2014, the outstanding balance of \$162,000 remains outstanding. No interest has been accrued; management has been unable to locate UUAHC.

NOTE 12 - 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 during the years ended September 30, 2015 and 2014 by MHCDO.

NOTE 13 - FORGIVENESS OF DEBT

For FY 2015, MHCDO recorded \$316,631 (revenue) for forgiveness of accrued interest on a note due to Citibank CDC Tax Credit Limited Partnership III. The related note payable was liquidated at September 30, 2015.

NOTE 14 -- SUBSEQUENT EVENTS

As discussed in Note 6, during FY 2015 certain properties included in Assets Held For Development at September 30, 2015 were auctioned and sold through District of Columbia tax sales for unpaid real estate taxes. Due to certain District of Columbia Government covenants related to these properties, MHCDO and the District of Columbia Department of Housing and Community Development are in the process of determining outcomes for the properties.