# CALMRA, INC.

# FINANCIAL STATEMENTS

# JUNE 30, 2015

MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CALMRA, Inc.
Beltsville, Maryland

We have audited the accompanying financial statements of CALMRA, Inc. (a non-profit Organization), which comprise the statement of financial position as of June 30, 2015, and the related 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 on 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 from material misstatement.

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

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

To the Board of Directors of
CALMRA, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALMRA, Inc. as of June 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.

**Report on Summarized Comparative Information**

We have previously audited CALMRA, Inc.'s 2014 financial statements, and our report dated November 13, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
November 6, 2015

CALMRA, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

| | 2015 | 2014 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 248,393 | $ 235,866 |
| Investments | 977,692 | 839,077 |
| Accounts receivable - funding sources | 2,535 | 36,947 |
| Accounts receivable - other | 13,087 | 14,915 |
| Prepaid expenses | 19,095 | 25,016 |
| Total current assets | 1,260,802 | 1,151,821 |
| PROPERTY AND EQUIPMENT | | |
| Net of accumulated depreciation | 4,314,810 | 4,068,595 |
| OTHER ASSETS | | |
| Loan origination fees, net of amortization | 3,821 | 4,017 |
| Deposits | 6,773 | 6,031 |
| Restricted deposits - reserve for replacements | 183,324 | 183,121 |
| Total other assets | 193,918 | 193,169 |
| Total assets | $ 5,769,530 | $ 5,413,585 |

LIABILITIES AND NET ASSETS

| | 2015 | 2014 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 74,419 | $ 91,483 |
| Accrued payroll, taxes, and benefits | 90,509 | 78,189 |
| Accrued vacation | 100,583 | 101,128 |
| Due to consumers | 28,708 | 34,958 |
| Deferred revenue | 3,750 | - |
| Margin line of credit | 239,959 | 180,855 |
| Mortgages and notes payable | 304,636 | 206,307 |
| Capital lease obligations | 55,789 | 48,974 |
| Total current liabilities | 898,353 | 741,894 |
| LONG-TERM LIABILITIES | | |
| Mortgages and notes payable | 2,930,094 | 2,764,744 |
| Participation liability | 205,081 | 222,252 |
| Capital lease obligations | 68,905 | 52,967 |
| Total long-term liabilities | 3,204,080 | 3,039,963 |
| Total liabilities | 4,102,433 | 3,781,857 |
| NET ASSETS | | |
| Unrestricted - undesignated | 952,342 | 929,371 |
| Unrestricted - Board designated | 599,924 | 579,526 |
| Temporarily restricted | 114,831 | 122,831 |
| Total net assets | 1,667,097 | 1,631,728 |
| Total liabilities and net assets | $ 5,769,530 | $ 5,413,585 |

The accompanying notes are an integral part of these financial statements.

# CALMRA, Inc.
## STATEMENT OF ACTIVITIES
### Year Ended June 30, 2015
### With Summarized Financial Information for the Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Total 2015 | Total 2014 |
|---|---|---|---|---|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Fees and grants | $ 4,670,618 | $ - | $ 4,670,618 | $ 4,643,735 |
| Consumer fees | 274,252 | - | 274,252 | 303,474 |
| Contributions and fundraising | 58,014 | - | 58,014 | 67,984 |
| Miscellaneous | 46,544 | - | 46,544 | 19,733 |
| Interest income | 43,845 | - | 43,845 | 29,346 |
| Gain on sale of fixed assets | 37,378 | - | 37,378 | - |
| Food stamps | 16,760 | - | 16,760 | 15,540 |
| Memberships | 6,675 | - | 6,675 | 5,765 |
| Unrealized gain (loss) on investments | (12,952) | - | (12,952) | 52,229 |
| | 5,141,134 | - | 5,141,134 | 5,137,806 |
| Net assets released from restrictions | 8,000 | (8,000) | - | - |
| Total revenues, gains and other support | 5,149,134 | (8,000) | 5,141,134 | 5,137,806 |
| EXPENSES | | | | |
| Program services | | | | |
| Residential | 3,991,075 | - | 3,991,075 | 3,822,742 |
| Day Habilitation | 524,670 | - | 524,670 | 565,307 |
| Community Supported Living Arrangements (CSLA) | 92,126 | - | 92,126 | 102,810 |
| Individual Support Services (ISS) | 14,300 | - | 14,300 | 18,486 |
| Total program services | 4,622,171 | - | 4,622,171 | 4,509,345 |
| Supporting services | | | | |
| Management and general | 478,432 | - | 478,432 | 441,047 |
| Fundraising | 5,162 | - | 5,162 | 11,873 |
| Total supporting services | 483,594 | - | 483,594 | 452,920 |
| Total expenses | 5,105,765 | - | 5,105,765 | 4,962,265 |
| Change in net assets | 43,369 | (8,000) | 35,369 | 175,541 |
| NET ASSETS AT BEGINNING OF YEAR | 1,508,897 | 122,831 | 1,631,728 | 1,456,187 |
| NET ASSETS AT END OF YEAR | $ 1,552,266 | $ 114,831 | $ 1,667,097 | $ 1,631,728 |

The accompanying notes are an integral part of these financial statements.

# CALMRA, Inc.
## STATEMENT OF FUNCTIONAL EXPENSES
### Year Ended June 30, 2015
### With Summarized Financial Information for the Year Ended June 30, 2014

| | Program Services | | | | Supporting Services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Residential | Day | CSLA | ISS | Management and General | Fundraising | 2015 | 2014 |
| Salaries | $ 2,393,532 | $ 300,194 | $ 34,710 | $ 6,696 | $ 288,697 | $ - | $ 3,023,829 | $ 2,891,341 |
| Fringe benefits | 332,805 | 23,149 | 1,687 | 1,205 | 33,779 | - | 392,625 | 366,403 |
| Payroll taxes | 163,182 | 20,441 | 2,233 | 369 | 20,451 | - | 206,676 | 217,143 |
| Total salaries and related expenses | 2,889,519 | 343,784 | 38,630 | 8,270 | 342,927 | - | 3,623,130 | 3,474,887 |
| Depreciation and amortization | 219,011 | 39,043 | 73 | 25 | 5,149 | - | 263,301 | 265,915 |
| Food | 171,311 | 20,192 | - | - | - | - | 191,503 | 187,508 |
| Interest | 109,689 | 33,710 | - | - | 907 | - | 144,306 | 137,364 |
| Utilities | 114,143 | 8,596 | - | - | 2,956 | - | 125,695 | 126,217 |
| Vehicle expense | 66,644 | 23,247 | - | - | 1,119 | - | 91,010 | 97,566 |
| Janitorial | 78,636 | 2,527 | - | - | 95 | - | 81,258 | 89,869 |
| Consultants | 71,474 | - | - | - | - | - | 71,474 | 76,727 |
| Insurance | 43,919 | 11,796 | 300 | 96 | 5,505 | - | 61,616 | 62,927 |
| Rent | 43,650 | 429 | 5,183 | 1,894 | 2,976 | - | 54,132 | 49,021 |
| Telephone | 35,566 | 10,230 | 1,337 | 215 | 2,330 | - | 49,678 | 46,663 |
| Purchase of services - consumers | 4,697 | - | 39,720 | 1,928 | - | - | 46,345 | 75,762 |
| Supplies | 35,009 | - | - | - | 5,243 | 5,162 | 45,414 | 56,885 |
| Repairs and maintenance | 27,963 | 4,495 | 1,027 | 647 | 2,524 | - | 36,656 | 21,704 |
| Office supplies | 14,757 | 15,101 | 544 | 181 | 3,382 | - | 33,965 | 31,608 |
| Professional fees | 855 | - | - | - | 32,877 | - | 33,732 | 28,642 |
| Purchase of services - other | - | - | - | - | 23,960 | - | 23,960 | 23,326 |
| Travel | 12,242 | 909 | 4,599 | 798 | 3,486 | - | 22,034 | 21,267 |
| Awards and grants | 10,000 | - | - | - | 11,192 | - | 21,192 | 11,194 |
| Training | 12,198 | 1,679 | 324 | 108 | 1,206 | - | 15,515 | 14,812 |
| National dues | 650 | - | - | - | 14,628 | - | 15,278 | 13,215 |
| Miscellaneous | 6,217 | 204 | 25 | 37 | 5,751 | - | 12,234 | 13,140 |
| Printing and publications | 5,884 | 2,378 | 214 | 71 | 2,455 | - | 11,002 | 12,325 |
| Registration fees | 3,957 | - | - | - | 3,172 | - | 7,129 | 7,474 |
| Small equipment | 5,402 | - | - | - | 1,060 | - | 6,462 | 1,927 |
| Condo dues | - | 5,625 | - | - | - | - | 5,625 | 5,371 |
| Postage and shipping | 3,822 | 300 | 150 | 30 | 98 | - | 4,400 | 4,042 |
| Conferences and meetings | 20 | - | - | - | 2,779 | - | 2,799 | 2,762 |
| Real estate taxes | 2,711 | - | - | - | - | - | 2,711 | - |
| Licenses and permits | 581 | 425 | - | - | 655 | - | 1,661 | 1,790 |
| Advertising | 548 | - | - | - | - | - | 548 | 355 |
| Total expenses | $ 3,991,075 | $ 524,670 | $ 92,126 | $ 14,300 | $ 478,432 | $ 5,162 | $ 5,105,765 | $ 4,962,265 |

The accompanying notes are an integral part of these financial statements.

CALMRA, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

| | 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ 35,369 | $ 175,541 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 263,301 | 265,915 |
| Gain on sale of fixed assets | (37,378) | - |
| Realized/unrealized loss (gain) on investments | 12,952 | (52,229) |
| Amortization of loan discount | 7,383 | 8,075 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 36,240 | 201,657 |
| Prepaid expenses | 5,921 | (7,101) |
| Deposits | (742) | 843 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (5,289) | 39,154 |
| Due to consumers | (6,250) | (877) |
| Deferred revenue | 3,750 | - |
| Net cash provided by operating activities | 315,257 | 630,978 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments and reinvested earnings | (291,697) | (354,502) |
| Acquisition of property and equipment | (111,931) | (74,088) |
| Proceeds from sale/redemption of investments | 140,130 | 83,349 |
| Proceeds from sale/disposal of fixed assets | 161,565 | - |
| Net cash used in investing activities | (101,933) | (345,241) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in margin line of credit | 59,104 | 165,613 |
| Change in restricted deposits - reserve for replacements | (203) | (23,137) |
| Principal payments on line of credit | - | (120,000) |
| Principal payments on mortgages and notes payable | (196,773) | (110,154) |
| Principal payments on capital leases payable | (62,925) | (67,914) |
| Net cash used in financing activities | (200,797) | (155,592) |
| Net change in cash and cash equivalents | 12,527 | 130,145 |
| Cash and cash equivalents at beginning of year | 235,866 | 105,721 |
| Cash and cash equivalents at end of year | $ 248,393 | $ 235,866 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | $ 136,923 | $ 129,289 |
| Noncash investing and financing activities: | | |
| Acquisition of property and equipment | $ 638,609 | $ 74,088 |
| Less amounts financed | (526,678) | - |
| Cash paid for property and equipment | $ 111,931 | $ 74,088 |

The accompanying notes are an integral part of these financial statements.

## Note 1 - Summary of Significant Accounting Policies

### Nature and Organization

CALMRA, Inc. was incorporated in the State of Maryland on November 27, 1984 and began operations in 1992. The Organization provides residential, individual, and community support services for adults with developmental disabilities.

### Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

### Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

### Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restriction. 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 net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give.

### 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 contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Note 1 - Summary of Significant Accounting Policies (Cont.)

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Assets costing $500 or more and having a useful life of more than one year are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Vehicles acquired prior to June 30, 2005 are depreciated over the estimated mileage rate. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less, except cash and money market funds that are part of an investment portfolio.

The Organization manages funds for consumers in the residential program. The funds are deposited into a separate collective consumer representative payee bank account and are included with cash on the statement of financial position. The balance in the consumer representative payee account at June 30, 2015 and 2014 was $28,708 and $34,958, respectively.

### Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

### Accounts Receivable

All accounts receivable are considered collectible at June 30, 2015 and 2014. Accordingly, an allowance for doubtful accounts has not been established.

### Income Tax Status and Income Tax Position

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

The Organization follows the guidance of ASC 740-10, "*Accounting for Uncertainty in Income Taxes*" which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

## Note 1 - Summary of Significant Accounting Policies (Cont.)

### Income Tax Status and Income Tax Position (Cont.)

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2012 remain subject to examination by federal and State authorities.

### Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all voluntary health and welfare organizations to present their expenses on a functional basis, separating program services from management and general and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation and administrative salaries.

### Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the year ended June 30, 2015 and 2014 amounted to $548 and $355, respectively.

## Note 2 - Concentration of Cash Balances

At various times during the year, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Amounts held in excess of FDIC insurance coverage limits were approximately $48,700 and $10,600, as of June 30, 2015 and 2014.

## Note 3 - Investments

Investments are recorded at fair market value. Investments consist of the following:

| | June 30, 2015 | | | June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Cost | Fair Market Value | Gross Unrealized Gain (Loss) | Cost | Fair Market Value | Gross Unrealized Gain (Loss) |
| Cash/money market | $ 3,000 | $ 3,000 | $ - | $ 64 | $ 64 | $ - |
| Mutual funds | 336,934 | 398,677 | 61,743 | 278,884 | 355,459 | 76,575 |
| Unit investment trusts | 48,587 | 46,598 | (1,989) | 32,232 | 33,153 | 921 |
| Fixed income bonds | 514,937 | 529,417 | 14,480 | 397,467 | 450,401 | 52,934 |
| | $ 903,458 | $ 977,692 | $ 74,234 | $ 708,647 | $ 839,077 | $ 130,430 |

## Note 4 - Fair Value Measurement

ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Note 4 - Fair Value Measurement (Cont.)

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include cash and money market funds held in brokerage accounts, active listed mutual funds, and unit investment trusts.

Investments whose values are based on other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active, and therefore classified with Level 2, include fixed income bonds.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30:

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash/money market | $ 3,000 | $ - | $ - | $ 3,000 |
| Mutual funds: | | | | |
| Blend funds | 171,883 | - | - | 171,883 |
| Value funds | 115,253 | - | - | 115,253 |
| Growth funds | 101,978 | - | - | 101,978 |
| Commodities | 9,563 | - | - | 9,563 |
| Total mutual funds | 398,677 | - | - | 398,677 |
| Unit investment trusts | 46,598 | - | - | 46,598 |
| Fixed income bonds | - | 529,417 | - | 529,417 |
| | $ 445,275 | $ 529,417 | $ - | $ 977,692 |

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash/money market | $ 64 | $ - | $ - | $ 64 |
| Mutual funds: | | | | |
| Blend funds | 167,996 | - | - | 167,996 |
| Value funds | 111,115 | - | - | 111,115 |
| Growth funds | 65,460 | - | - | 65,460 |
| Commodities | 10,888 | - | - | 10,888 |
| Total mutual funds | 355,459 | - | - | 355,459 |
| Unit investment trusts | 33,153 | - | - | 33,153 |
| Fixed income bonds | - | 450,401 | - | 450,401 |
| | $ 388,676 | $ 450,401 | $ - | $ 839,077 |

Note 5 - Property and Equipment

A summary of property and equipment follows for June 30:

| | Estimated Lives | 2015 | 2014 |
|---|---|---|---|
| Land | - | $ 1,672,373 | $ 1,518,073 |
| Buildings | 10 - 35 years | 2,884,280 | 2,767,262 |
| Furniture and equipment | 2 - 10 years | 237,607 | 227,070 |
| Vehicles | 75,000 miles | 400,863 | 314,156 |
| Vehicles | 5 years | 459,439 | 460,468 |
| Capital and leasehold improvements | 10 - 25 years | 1,298,419 | 1,272,298 |
| Construction in progress | - | 6,870 | 4,850 |
| | | 6,959,851 | 6,564,177 |
| Less accumulated depreciation | | (2,645,041) | (2,495,582) |
| Net property and equipment | | $ 4,314,810 | $ 4,068,595 |

Depreciation expense for the years ended June 30, 2015 and 2014 was $263,301 and $265,915, respectively.

Note 6 - Loan Origination Fees

In December 2004, the Organization purchased a new residential home and incurred loan origination fees in the amount of $5,902 in connection with the mortgage. The loan origination fees are amortized over the life of the mortgage (30 years). Amortization expense for the years ended June 30, 2015 and 2014 totaled $197 and is included in depreciation expense.

Note 7 - Restricted Deposits

The Organization is required to maintain a reserve for replacements escrow account for each residential property financed through Maryland Department of Housing and Community Development. As of June 30, 2015 and 2014, the cumulative monthly deposits required to be made into the reserve for replacements escrow accounts was $3,275 and $2,385, respectively. The Organization must request approval from the Department of Housing and Community Development to expend the funds for approved repairs and replacements. As of June 30, 2015 and 2014, the balance in the reserve for replacement accounts was $183,324 and $183,121, respectively.

## Note 8 - Mortgages and Notes Payable

Details and balances of mortgages and notes payable are as follows for years ending June 30:

| | 2015 | 2014 |
|---|---|---|
| Mortgages payable to the Maryland Department of Housing and Community Development. The loans were obtained to acquire residential properties. Aggregate monthly payments of $15,038 include principal and interest ranging between 1% - 7%. The mortgages are for 30 years and mature between August 2024 and May 2042. The mortgages are secured by residential properties. | $ 2,045,546 | $ 2,217,007 |
| Mortgage payable to the State Employee Credit Union. The mortgage was obtained to acquire two commercial building units as well as refinance a residential mortgage. Monthly payments of $3,552 include principal and interest at 6.5%. The mortgage is due July 2019. The mortgage is secured by the two building units and one residential property. The mortgage was refinanced in August 2014 and the interest rate was reduced to 4.65%. | 459,092 | 470,785 |
| Mortgage payable to the State Employee Credit Union. The mortgage was obtained to acquire one residential property. Monthly payments of $2,301 include principal and interest at 4.65% for the first 60 months. Monthly payments increase to $2,355 in October 2019 and include interest at 4.92% through September 2024. A balloon payment is due for the remaining principal balance on the mortgage in September 2024. The mortgage is secured by one residential property. | 397,433 | - |
| Notes payable to Montgomery County Department of Housing and Community Affairs. The loans were obtained to assist in the purchase of various capital renovations for residential properties. The notes are non-interest bearing and are forgivable after 3 years if the Organization meets its obligations as stated in the loan agreement. The notes mature between fiscal years ending June 30, 2016 and 2018. | 214,134 | 178,134 |
| Mortgages payable to the Montgomery County Department of Housing and Community Affairs. The loans were obtained to supplement the acquisition of six group homes. Aggregate monthly payments of $856 include principal and interest ranging between 3% - 4%. The mortgages are for 30 years and mature between March 2027 and January 2035. The mortgages are secured by residential properties. | 117,258 | 123,310 |
| Notes payable to Prince George's County Department of Housing. The loans were obtained to assist in the purchase of four residential properties. The notes are non-interest bearing and are forgivable after 20 years if the Organization meets its obligations as stated in the loan agreement. The notes mature between fiscal years ending June 30, 2019 and 2021. | 109,000 | 109,000 |
| Total mortgages and notes payable | 3,342,463 | 3,098,236 |
| Less discount | (107,733) | (127,185) |
| Less current maturities | (304,636) | (206,307) |
| Long-term portion | $ 2,930,094 | $ 2,764,744 |

## Note 8 - Mortgages and Notes Payable (Cont.)

The Organization has entered into certain participation mortgage loans with Maryland Department of Housing and Community Development (DHCD). These loans totaled $2,162,804 and $2,340,317 as of June 30, 2015 and 2014, respectively. These agreements entitle DHCD to 50% of the appreciation, as defined in the agreement, upon sale, refinancing, or transfer of the related property; upon ceasing use of the related property for its stated purpose; or default or maturity of the related note. At June 30, 2015 and 2014, the Organization has recorded a participation liability of $205,081 and $222,252, respectively and a related mortgage loan discount of $107,733 and $127,185, respectively in connection with these agreements.

The State Employee Credit Union mortgage agreement contains various covenants, which among other things, places restrictions on the Organization's ability to incur additional indebtedness, requires the Organization to maintain certain financial ratios, and prevents the Organization from loaning money, or selling the building or merging with another entity. At June 30, 2015 and 2014, the Organization was in compliance will all covenants associated with the mortgage.

Required principal payments are as follows for future years ending June 30:

| | |
|---|---|
| 2016 | $ 304,636 |
| 2017 | 131,637 |
| 2018 | 137,104 |
| 2019 | 142,763 |
| 2020 | 218,702 |
| Thereafter | 2,407,621 |
| | $ 3,342,463 |

For the years ended June 30, 2015 and 2014, total interest expense was $144,306 and $137,364, respectively.

## Note 9 - Line of Credit

In April 2008, the Organization obtained a revolving line of credit with a bank. The borrowing limit is $300,000, with interest at the prime rate plus 1%, limited by a floor on the interest rate at a minimum of 4%. The line of credit is secured by cash, securities, and property of the Organization. As of June 30, 2015 and 2014, the balance outstanding on the line of credit was $-0-.

In March 2012, the Organization entered into a line of credit with a bank with a borrowing limit of $125,000. The line of credit is available to assist with the purchase of equipment or to finance improvements to group homes. As of June 30, 2015 and 2014, the balance outstanding on the line of credit was $-0-.

Note 10 - Margin Line of Credit

The Organization has a margin line of credit available from its investment broker. The margin account is secured by the investments. The interest rate at June 30, 2015 and 2014 was 6.12%. The balance outstanding as of June 30, 2015 and 2014 was $239,959 and $180,855, respectively.

Note 11 - Capital Lease Obligations

The Organization has entered into several lease arrangements for vehicles, which have been accounted for as capital leases. The terms of the leases are 60 months. At June 30, 2015 and 2014 aggregate monthly payments of $7,704 and $6,026, respectively, include principal and interest at 6.50%. At June 30, 2015 and 2014 the total cost of vehicles acquired was $458,989 and $460,467, respectively. The remaining book value at June 30, 2015 and 2014 of $136,669 and $124,692, respectively. Amortization of the vehicles is included in depreciation expense.

Future minimum lease payments under these leases are as follows:

| Year Ending June 30 | |
|---|---|
| 2016 | $ 62,350 |
| 2017 | 29,767 |
| 2018 | 23,923 |
| 2019 | 20,136 |
| 2020 | 1,964 |
| | 138,140 |
| Less payments representing interest | (13,446) |
| Present value of future lease payments (including current portion of $55,789) | $ 124,694 |

Note 12 - Accrued Vacation

Employees of the Organization are entitled to paid vacation, depending on the length of service and job classification. At June 30, 2015 and 2014, there was $100,583 and $101,128, respectively, of vacation benefits due employees.

Note 13 - Retirement Plan

The Organization has established a 403(b) tax-deferred annuity plan for all eligible employees. The Organization matches employee's voluntary contributions of up to 3% to 6% of base pay, depending on the length of employment. Pension expense for the years ended June 30, 2015 and 2014 was $49,092 and $47,115, respectively, and is included in fringe benefits in the financial statements.

## Note 14 - Operating Lease

An administrative office space is leased on a monthly basis. The monthly rent as of June 30, 2015 was $3,834.

A storage facility space is leased on a monthly basis. The monthly rent as of June 30, 2015 was $371.

Total rent expense for the years ended June 30, 2015 and 2014 was $54,132 and $49,021, respectively.

## Note 15 - Unrestricted - Board Designated Net Assets

Board designated net assets represent investment accounts which the Board has designated to be used for future program improvements and expansion.

Board designated net assets include the following for the years ended June 30:

| | 2015 | 2014 |
|---|---|---|
| Cash | $ 8,627 | $ 12,721 |
| Investments | 591,297 | 566,805 |
| | $ 599,924 | $ 579,526 |

## Note 16 - Temporarily Restricted Net Assets

During the year ended June 30, 2006 the Organization received grant funds from the State of Maryland for residential renovations. If the property is sold or transferred within thirty years to a non-approved person, agency, or organization after the completion of the renovation project, the State is entitled to receive an amount bearing the same ratio to the then current fair market value of the property.

During the year ended June 30, 2011 the Organization received grant funds from Prince George's County Department of Housing and Development for residential renovations. Use of the property must meet one of the three CDBG program national objectives for at least five years after the operating agreement has expired. If the property is not used in accordance with the CDBG program national objectives, the Organization is required to pay the County an amount equal to the current market value of the property less any portion of the value attributable to expenditures of non-CDBG funds for the acquisition of, or improvements to, the property.

Note 16 - Temporarily Restricted Net Assets (Cont.)

Temporarily restricted net assets include the following for years ended June 30:

| | 2015 | 2014 |
|---|---|---|
| State of Maryland - renovation grant | $ 75,000 | $ 75,000 |
| P.G. County CDBG - renovation grant | 39,831 | 39,831 |
| Generator | - | 8,000 |
| | $ 114,831 | $ 122,831 |

Note 17 - Related Party Transactions

For the years ended June 30, 2015 and 2014, a member of the Board of Directors served as the Organization's investment agent. The Organization did not pay commissions to the Board member during the years ended June 30, 2015 and 2014.

Note 18 - Contingencies

The Organization receives a substantial portion of its revenue from government grants and contracts, all of which are subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Organization is of the opinion that no significant liability will result from audit adjustments, if any.

Note 19 - Significant Funding Source

The Organization receives a majority of its total revenues through the State of Maryland's Department of Health and Mental Hygiene. The Organization is highly dependent upon government funding to continue its operations.

Note 20 - Subsequent Events

Subsequent events were evaluated through November 6, 2015, which is the date the Organization's financial statements were available to be issued.